

Agrium

A N N U A L

R E P O R T

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HEADQUARTERED IN CALGARY, ALBERTA, AGRIUM INC. IS A LEADING PRODUCER AND MARKETER OF FERTILIZER IN NORTH AMERICA AND A MAJOR RETAIL SUPPLIER OF AGRICULTURAL PRODUCTS AND SERVICES IN BOTH NORTH AMERICA AND ARGENTINA. AGRIUM CONDUCTS ITS BUSINESS THROUGH FOUR STRATEGIC BUSINESS UNITS. ● NORTH AMERICAN WHOLESALE ("WHOLESALE") PRODUCES AND MARKETS FOUR PRIMARY

GROUPS OF FERTILIZERS: NITROGEN, PHOSPHATE, POTASH AND SULPHUR. NITROGEN-BASED FERTILIZERS ACCOUNT FOR 56% OF WHOLESALE SALES AND ARE PRODUCED IN MODERN, EFFICIENT FACILITIES CAPITALIZING ON A SIGNIFICANT GAS COST ADVANTAGE IN THE PRIMARY PRODUCTION AREAS. AGRIUM IS ALSO A MAJOR PRODUCER AND SUPPLIER OF PHOSPHATE, POTASH AND SULPHATE

IN ITS MARKET AREAS. ● NORTH AMERICAN RETAIL ("RETAIL") IS THE SECOND-LARGEST INDEPENDENT RETAILER OF AGRICULTURAL INPUTS AND PRODUCT SERVICES IN THE UNITED STATES. RETAIL PROVIDES A DEPENDABLE EARNINGS STREAM AND ALSO PROVIDES AN OUTLET FOR WHOLESALE PRODUCTION. ● INTERNATIONAL EXPLORES NEW OPPORTUNITIES AND PROJECTS OUTSIDE OF NORTH AMERICA WITH THE IMMEDIATE

FOCUS ON PRODUCTION, DISTRIBUTION AND RETAIL OPPORTUNITIES IN ARGENTINA AND THE SOUTHERN CONE REGION OF SOUTH AMERICA. ● NEW PRODUCTS FOCUSES ON EMERGING AND GROWING MARKETS BY DEVELOPING AND MARKETING UNIQUE AND PROPRIETARY TECHNOLOGIES THAT HAVE THE POTENTIAL TO PROVIDE CUSTOMERS WITH VALUE-ADDED PRODUCTS.

CORPORATE PROFILE

LARGEST
PRODUCER
OF NITROGEN
FERTILIZER
IN N
AME

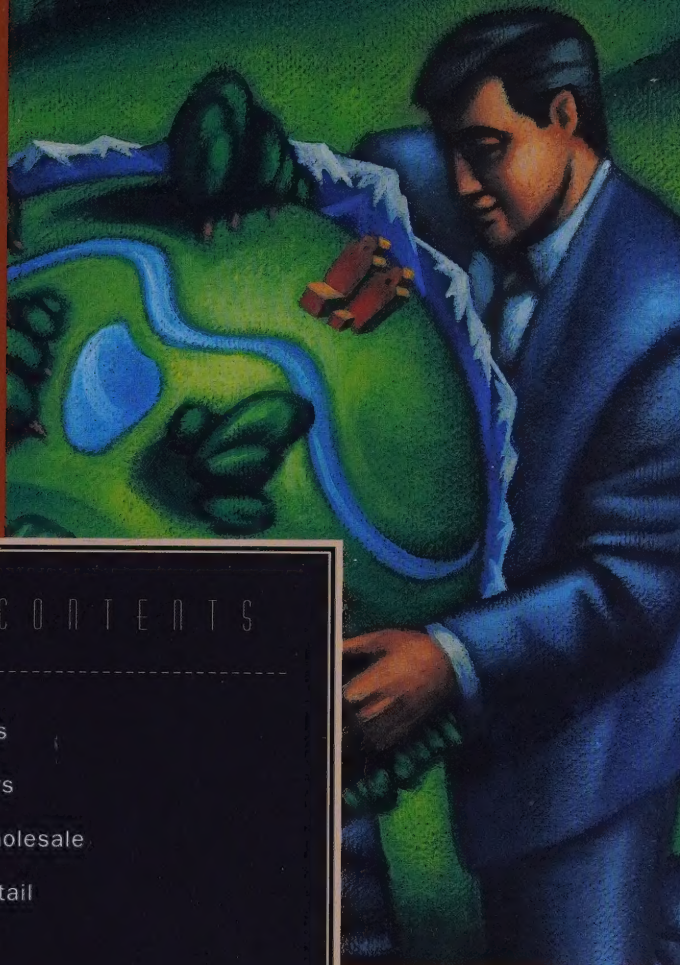
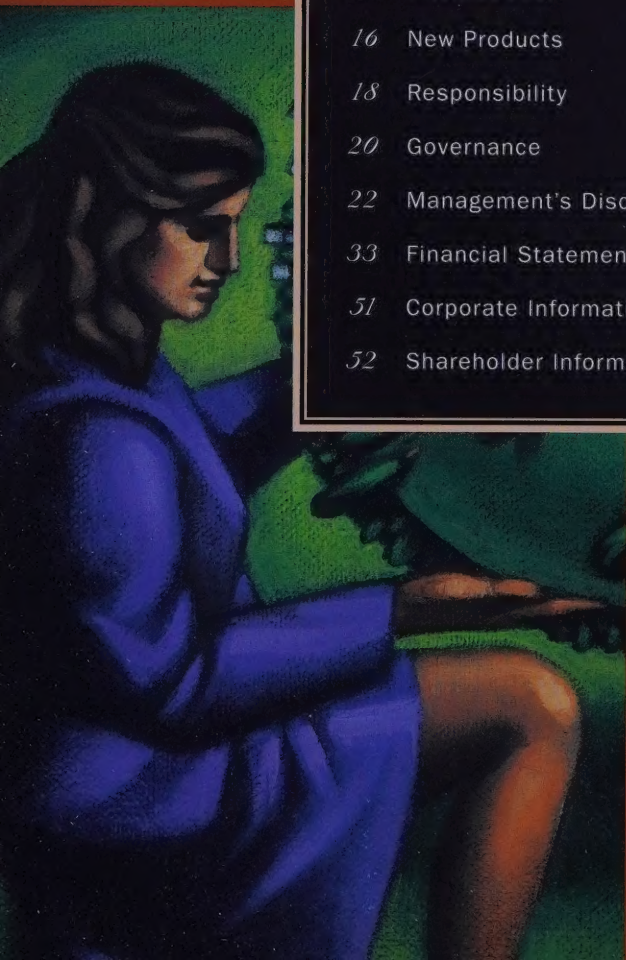


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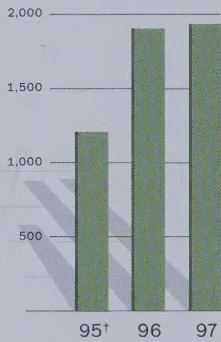
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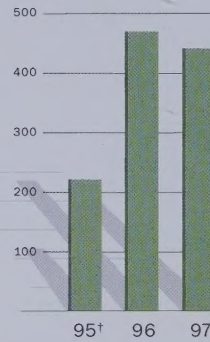
WELL-POSITIONED
FOR SUCCESS
WELL-POSITIONED
FOR SUCCESS

Financial

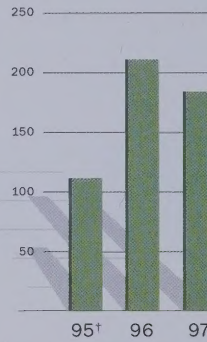
NET SALES
US\$ millions



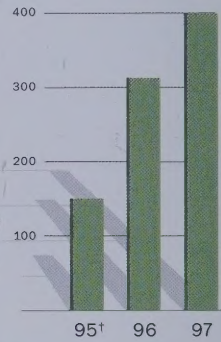
EBITDA
US\$ millions



NET INCOME
US\$ millions



CASH PROVIDED BY CONTINUING OPERATIONS BEFORE CHANGES IN NON-CASH WORKING CAPITAL
US\$ millions



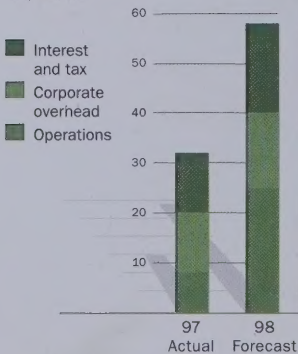
† 1995 data is pre-merger Agrium only

COMPETITIVE ADVANTAGES

- ▶ Low-cost producer
- ▶ Extensive storage and distribution
- ▶ Prime regional markets
- ▶ Vertical integration
- ▶ Strong margins

**MERGER SYNERGIES
COST SAVINGS**

US\$ millions



EXPANDING MARKETS

- ▶ World population and GDP are growing
- ▶ Grain demand is growing worldwide
- ▶ World grain inventories are shrinking
- ▶ New arable land is limited, necessitating higher yields per acre



Highlights



GROWTH OPPORTUNITIES

- ▶ Increased potash sales
- ▶ International expansion
- ▶ Synergy opportunities among divisions
- ▶ New products



FINANCIAL HIGHLIGHTS

Millions of US\$ except per share data	1997	1996	1995 [†]
Net sales	\$1,938	\$1,904	\$1,218
Gross profit	694	710	414
EBITDA*	444	470	221
Earnings from continuing operations	185	212	112
Per common share	1.43	1.54	1.68
Cash provided by continuing operations before changes in non-cash working capital	399	313	151
Per common share	3.10	2.27	2.29
Working capital	338	44	183
Total assets	1,661	1,591	911
Long-term debt	483	184	187
Shareholders' equity	631	701	399
Capital expenditures	144	153	56

* Earnings before interest expense, income taxes, depreciation and amortization

[†] 1995 data is pre-merger Agrium only

In the financial highlights (above) and key financial ratios (right), earnings and cash flow are determined before charges associated with the merger of Agrium Inc. and Viridian Inc., and costs associated with the retirement of Viridian Inc. debt.

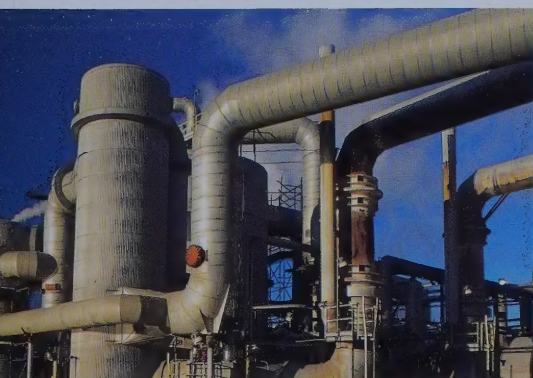
INVESTMENT HIGHLIGHTS

- ▶ Demand outlook is strong
- ▶ Industry production and demand are in balance
- ▶ Modern and efficient facilities
- ▶ Financially solid
- ▶ Building shareholder value
- ▶ Promising growth opportunities

KEY FINANCIAL RATIOS

: 1 except percentages	1997	1996	1995 [†]
Current assets to current liabilities	2.13	1.08	1.77
Long-term debt to total assets	0.29	0.12	0.20
Long-term debt to funds flow (years)	1.21	0.59	1.23
Total debt to debt + equity	0.47	0.41	0.38
Interest coverage	7.84	6.72	17.94
Return on sales (%)	9.59	11.11	9.23
Return on average invested capital (%)	17.86	17.98	23.16
Return on average shareholders' equity (%)	27.75	27.02	32.40

[†] 1995 data is pre-merger Agrium only





G. WOODY MACLAREN – CHAIRMAN OF THE BOARD / JOHN M. VAN BRUNT – PRESIDENT AND CHIEF EXECUTIVE OFFICER

TO OUR SHAREHOLDERS

OVER THE PAST YEAR, AGRIUM ADDRESSED A VARIETY OF MARKET AND BUSINESS CHALLENGES AND WELCOMED MANY NEW OPPORTUNITIES. WE HAVE ACHIEVED EFFICIENCIES AT ALL OPERATIONAL AND CORPORATE LEVELS, BUT MORE IMPORTANTLY, WE HAVE FOCUSED ON CONSOLIDATION AND INTEGRATION IN THE POST-MERGER ERA. ALTHOUGH THE RESULTS HAVE BEEN REWARDING, THE CORPORATION FACES EQUALLY EXCITING CHALLENGES IN 1998 AND BEYOND. WE REMAIN COMMITTED TO OUR VISION OF HELPING TO FEED THE WORLD WHILE AT THE SAME TIME PROVIDING SUPERIOR RETURNS TO OUR SHAREHOLDERS. 🍀

The merger with Viridian in December 1996 doubled the size of our business and provided the critical mass to achieve our goals. Savings from the merger were forecast at \$28 million in 1997 and \$58 million in 1998. By the end of 1997 we had exceeded our forecast, and are now well on our way to surpassing our more ambitious target for 1998.

Financial and operational highlights for 1997 included record net sales of \$1.9 billion, despite weakness in urea pricing, and our North American Wholesale Division maintained sales volumes at record 1996 levels. North American Retail expanded by nine facilities and realized a growth in net sales of almost \$50 million over the previous year. Earnings from continuing operations for 1997 were a respectable \$184.9 million (\$1.43 per share), compared to \$211.5 million (\$1.54 per share) in 1996 before charges associated with the merger and subsequent debt restructuring.

Despite weaker nitrogen pricing which commenced in mid-1997, we continued to generate strong margins and cash flow. Cash flow was used to fund ongoing capital projects, reduce

debt and repurchase shares. Management continues to believe that Agrium shares are undervalued, and that in these circumstances share repurchase programs represent a compelling use of available cash flow.

Operationally, Agrium remains the lowest-cost nitrogen producer in North America, benefiting from the most modern asset base and comparatively low cost of Alberta natural gas. This latter advantage is enhanced by our gas procurement strategy, which reduces the impact of gas price volatility through the use of hedging programs.

Our goal is to lower the delivered cost for all of our products and to provide security of supply for raw material feedstocks. In pursuit of this goal, we are integrating two phosphate mines into our operations to reduce the cost of phosphate rock input at our plants in Redwater, Alberta and Conda, Idaho. In August 1997, Agrium announced the development of a phosphate rock mine at Kapuskasing, Ontario, which will supply phosphate rock to Redwater by mid-1999. This project will generate cost savings of approximately \$28 million per year with a capital cost of

\$70 million over two years. A second mine at Conda, Idaho, adjacent to our plant, has recently been purchased at a price of \$20.8 million, and is expected to produce cost savings of approximately \$5 million per year.

In our North American Wholesale Business Unit, Agrium's costs are, and will remain, among the lowest in the industry and our margins are among the highest. Operations are lean and our extensive distribution system feeds the healthiest agricultural markets in North America.

The Unit will remain focused on Western Canada and the Pacific Northwest. Growth in the wholesale business will be aimed at increasing and consolidating market share. The Company will continue its efforts to optimize its operations. We believe we are well poised for both the challenges and opportunities that lie ahead.

The North American Retail business experienced a record year in 1997. Retail sales and profits set new records as a result of increased market share, reductions in general and administrative costs and the addition of new retail farm centers. Agrium will pursue alliances with leading chemical and seed companies in order to capitalize on market changes related to genetically altered seed.

In 1997, we continued to advance select projects outside North America. With world population rising steadily and a finite bank of arable land, the need for more productivity per acre is rising. To achieve this necessary increase in yield, the world will require increased usage of fertilizer in all markets.

We are primarily focused on the Southern Cone region of South America because this market possesses the right balance of market potential and economic stability. The region also possesses vast areas of arable land that represent considerable potential demand for fertilizer products and services.

Our immediate growth initiatives are focused on Argentina which currently must import the majority of its fertilizer requirements. Our goal is to be the dominant, lowest-cost supplier in this emerging market, where we currently operate 18 farm centers. We are also an equal one-third partner in the Profertil project to build the largest single-train granular urea plant in the world, capable of producing over one million tonnes of product per year. The project is expected to be completed by mid-2000.

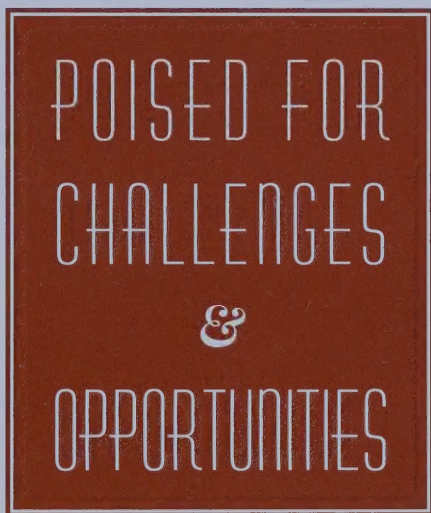
Our New Products team has accomplished several of the milestones specified in its mandate to develop new and better fertilizer products and biologicals. Work has continued on a

second-generation, lower-cost, controlled release urea product, which releases fertilizer to the crop as required. Wide-scale crop testing is underway and we expect a commercial product to be launched in the near term. We are also test-marketing a new, patented high analysis sulphur fertilizer in Western Canada and the Pacific Northwest.

We would like to thank Dale Massie and Gary Carstens, who retired in 1997, for their outstanding service to the Company. We would also like to welcome Bill Robertson to his new position as Executive

Vice President and Chief Operating Officer. Due to his expanded duties with Agrium, Bill Robertson will relinquish his position on the Board of Directors in 1998. James Temple has also indicated that he has decided to step down from the Board this year. We would like to take this opportunity to thank them for their contributions to the Board.

In conclusion, Agrium will continue to focus on improving shareholder value. The past year has brought considerable and welcome change to Agrium, and we wish to extend both our congratulations and sincere thanks to all of our employees. Their commitment and professionalism has made the merger with Viridian a resounding success.



G. Woody MacLaren
Chairman of the Board

March 11, 1998

John M. Van Brunt
President and Chief
Executive Officer

March 11, 1998

AGRIUM STOCK JUMPS

"Agrium Inc.'s stock shot up in a torrent of trading yesterday after the Calgary-based fertilizer giant announced it will issue US\$300 million in new debt and use part of the proceeds to buy back 10 per cent of its common shares."

The Globe and Mail, January 24, 1997

AGRIUM COMPLETES PROCESS OF MERGING WITH VIRIDIAN

"Every area of each organization has been scrutinized and the best team and business practices retained."

The Review, May 12, 1997

AGRIUM TO BUILD \$500M PLANT IN ARGENTINA

"Agrium Inc. is close to launching an aggressive expansion into the South American fertilizer market with the construction of a \$500-million nitrogen plant in Argentina."

The Financial Post, September 10, 1997

AGRIUM PROFIT SECOND BEST IN ITS HISTORY

"For 1997, Agrium reported earnings from continuing operations of US\$184.9 million (US\$1.43 per share) on revenue of US\$1.94 billion."

The Financial Post, February 5, 1998

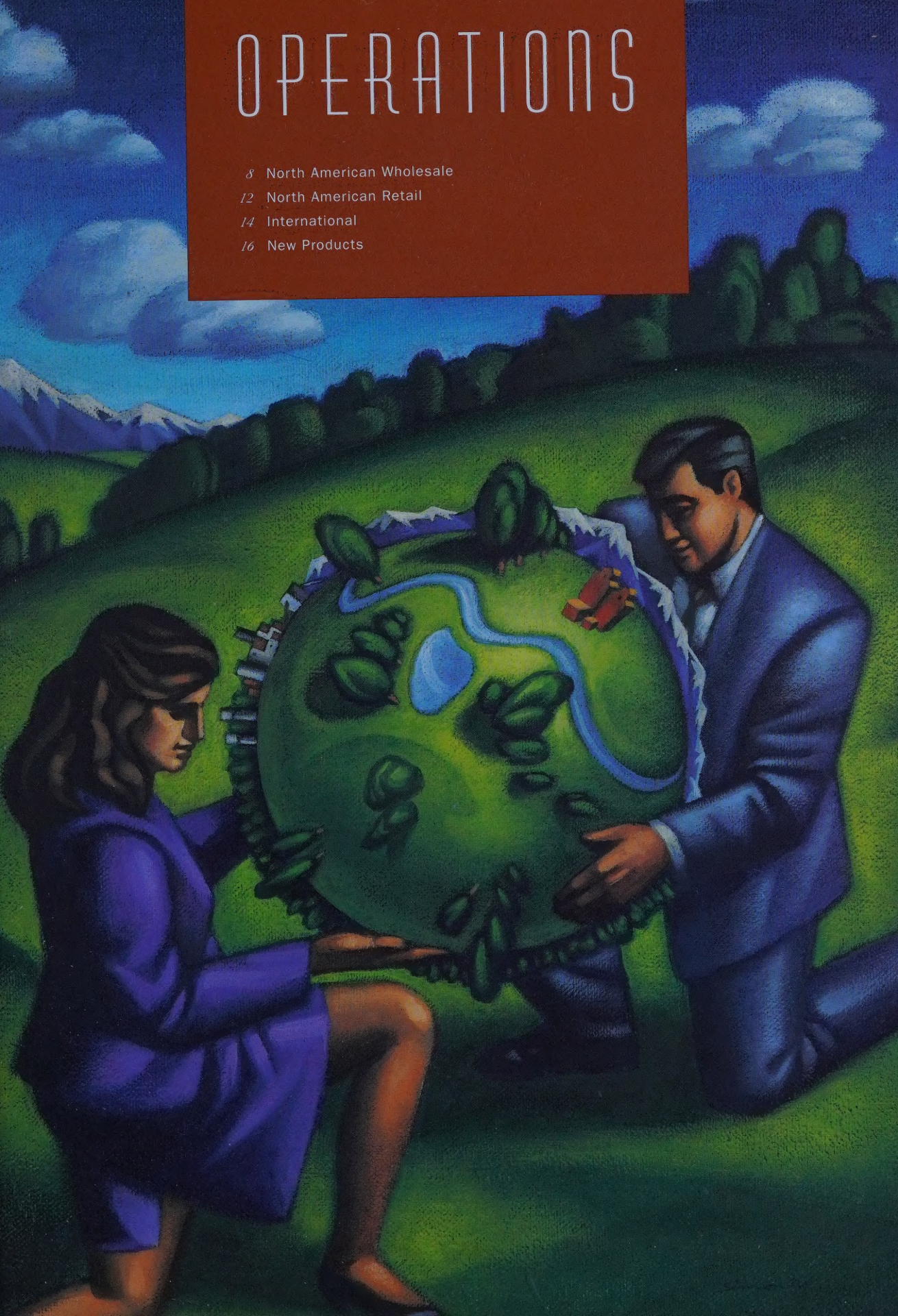
CHOICE STOCKS ARE INSULATED FROM ASIA

"The money manager continues to recommend Calgary-based fertilizer company Agrium... The price has come back and the stock will reward the patient."

The Financial Post, January 10, 1998

OPERATIONS

- 8 North American Wholesale
- 12 North American Retail
- 14 International
- 16 New Products



NORTH AMERICAN WHOLESALE



OVERVIEW

Agrium's North American Wholesale Business Unit ("Wholesale") produces, distributes and markets fertilizers and related products to customers in the US Midwest, US Pacific Northwest and Western Canada. Four primary groups of fertilizers – nitrogen, phosphate, potash and sulphur – are produced from eight facilities located in Western Canada and the US. Agrium is the largest producer of nitrogen

fertilizers in North America and is also a significant producer and supplier of phosphate, potash and sulphate in its primary market areas. An *extensive distribution network*, low-cost production facilities, efficient operations and strong demand all contribute to profitable and sustainable margins.

Agrium believes the key to customer satisfaction in the fertilizer business is supplying the customer on a timely basis and at a competitive price. This requires a distribution system with size, efficiency and strategic positioning of supply points, a keen understanding of customers' needs and constant monitoring of the competition. Agrium meets these requirements and is unparalleled in the markets it serves.

DISTRIBUTION STRENGTH

Tank cars	1,300
Hopper cars	900
Leased cars	2,200
MAPCO pipeline	1,450 kms
Ammonia storage facilities capacity	14 415,000 tonnes
Dry fertilizer storage facilities	10
Agrium + leased capacity	1.5 million tonnes

In 1997, Agrium produced and marketed 6.5 million tonnes of fertilizer.

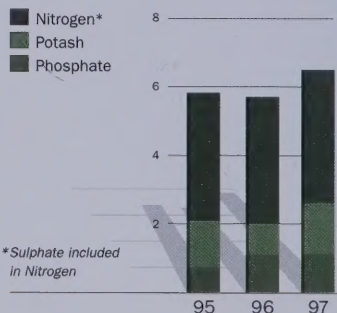
Approximately 76% of this production was sold to agricultural customers in North America, 14% to industrial customers, and 10% was sold offshore. With sales at or near production capacity for each product line, these figures are indicative

of Agrium's growing position as *one of North America's leading producers of crop nutrients*.

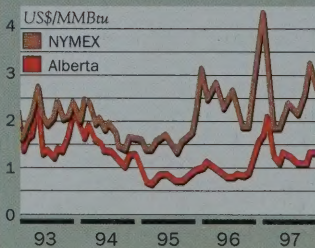
In 1997, Agrium was once again among the lowest-cost producers of ammonia and urea in North America. Relatively low costs for natural gas, the main raw material used in the production of nitrogen-based fertilizers, continued to offer a *significant competitive advantage*. Over the years, Alberta gas prices have consistently been well below US prices, and Agrium leverages this price advantage through the use of proactive hedging strategies in order to manage price volatility and secure supply.

TOTAL FERTILIZER PRODUCTION

millions of tonnes



COMPARATIVE GAS COST





Agrium's modern and efficient production facilities are key to maintaining low operating costs. Three of the six newest world-scale nitrogen plants in North America belong to Agrium. These plants, Redwater, Fort Saskatchewan and Joffre, along with our Carseland facility, all rank in the lowest cost quartile in North America. Continuous upgrading and maintenance programs ensure that *optimum efficiency and capacity* are achieved at every facility, and ongoing reviews of cost structures are carried out to ensure margins are maximized.

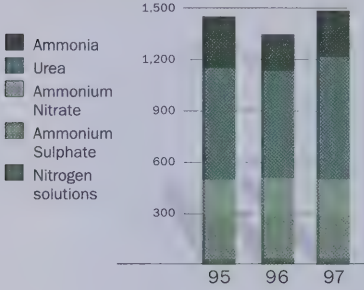
Wholesale will also continue to focus on maximizing the synergies from the merger with Viridian, primarily in the areas of marketing, organization and transportation and logistics.

Expansion initiatives in 1997 included the acquisition of a phosphate rock mine located close to our Conda facility in Idaho to establish security of supply. The acquisition is expected to achieve cost savings of \$5 million annually and has a reserve life of approximately 17 years. In addition, Agrium began development of a phosphate rock mine at Kapuskasing, Ontario, which will begin supplying 100% of the required rock to our phosphate facility at Redwater by mid-1999. Production cost savings are expected to be \$28 million annually and reserve life is approximately 20 years. The Redwater facility is currently purchasing one million tonnes per year of phosphate rock from Togo, West Africa. Agrium's Vanscoy Potash operations completed a major *390,000-tonne expansion* of the operation in 1997 to increase annual capacity to 1,750,000 tonnes.

Western North America continues to be Agrium's primary market. The combination of efficient production locations, low-cost raw materials and an extensive distribution system provides significant competitive advantages in the area. With strong marketing support and responsive distribution capabilities, Agrium is well-positioned to address this market's demands.

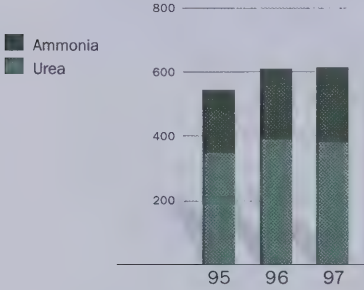
REDWATER PRODUCTION

thousands of tonnes



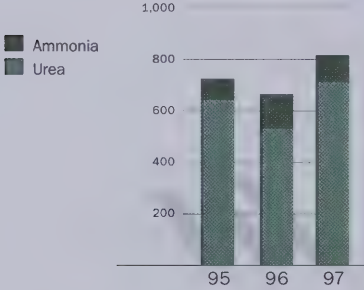
FORT SASKATCHEWAN PRODUCTION

thousands of tonnes



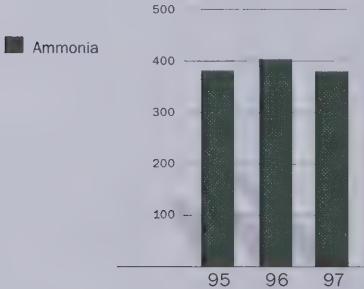
CARSELAND PRODUCTION

thousands of tonnes



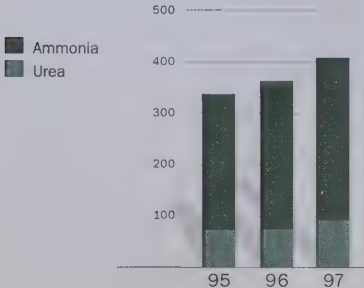
JOFFRE PRODUCTION

thousands of tonnes



BORGER PRODUCTION

thousands of tonnes



NITROGEN OPERATIONS

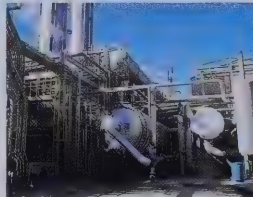
The nitrogen operations are the cornerstone of Agrium's business. Ammonia, urea, ammonium nitrate, ammonium sulphate and various nitrogen solutions are produced from six facilities at Redwater, Fort Saskatchewan, Carseland and Joffre in Alberta, Canada and from Borger, Texas and Homestead, Nebraska in the United States.



Redwater

The Redwater fertilizer operation, located near Edmonton, Alberta, is Agrium's largest facility, producing anhydrous ammonia, urea, ammonium nitrate, ammonium sulphate and ammonium nitrate solutions.

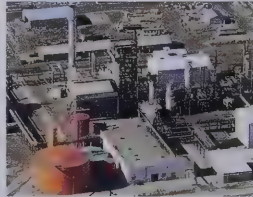
In 1997, annual production records were set for ammonia, urea and nitrate solutions as a result of high on-stream performance and a urea de-bottleneck project completed in mid-1996. Improvements have resulted in better anti-caking performance of ammonium nitrate and emission reductions for nitric acid and ammonium nitrate. A major energy efficiency and production increase project for the Ammonia 1 plant was also initiated at an estimated cost of \$10 million. The project is scheduled for completion in 1998.



Fort Saskatchewan

Agrium's Fort Saskatchewan nitrogen operation, located near Edmonton, Alberta, manufactures anhydrous ammonia and urea.

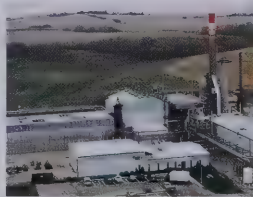
Ammonia production reached a record level for the second consecutive year. This was the result of ongoing optimization programs combined with previous years' capital expenditures which helped minimize plant downtime.



Carseland

The Carseland nitrogen operation, located 30 kilometers southeast of Calgary, Alberta produces anhydrous ammonia and urea.

A major plant expansion was successfully completed at Carseland in 1996, adding 73,000 tonnes of ammonia and 110,000 tonnes of urea production capacity. The full-year impact of this expansion, together with good on-stream performance, was reflected in record production levels of both ammonia and urea in 1997.



Joffre

Located 25 kilometers northeast of Red Deer, Alberta, Joffre produces anhydrous ammonia utilizing by-product hydrogen and nitrogen from neighbouring plants as its feedstock. The plant is one of the most energy-efficient ammonia production facilities in North America.

U.S. NITROGEN OPERATIONS



Borger

Located in the Texas Panhandle, Borger produces anhydrous ammonia and feed and agricultural grade urea for the US Southwest cattle and fertilizer markets. As well, Borger supplies ammonia to Midwest agricultural markets and our Homestead operations via the MAPCO pipeline.

In 1997, Borger set annual production records for both ammonia and urea, and also achieved an all-time low energy consumption record at the ammonia plant. These records were achieved as a result of expansion and the installation of an advanced ammonia process control system in 1996 and 1997.



Homestead

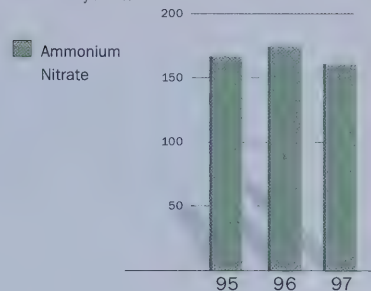
Agrium's Homestead facility is located near Beatrice, Nebraska and produces agricultural-grade ammonium nitrate from ammonia feedstock supplied by the Borger operation via the MAPCO ammonia pipeline.

Production from Homestead in 1997 was 161,000 tonnes, slightly lower than 1996 levels. The planned 1998

capital expenditure program is expected to improve the efficiency of the facility.

HOMESTEAD PRODUCTION

thousands of tonnes



PHOSPHATE OPERATIONS

Agrium's phosphate operations are comprised of its facilities at Conda, Idaho and Redwater, Alberta, and in total produce approximately 1,100,000 product tonnes annually.



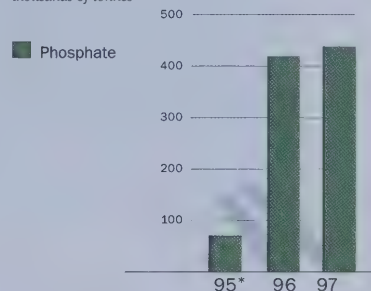
Conda

Agrium's Conda phosphate operation produces concentrated liquid phosphate products and granular ammonium phosphate products from phosphate rock supplied from the Rassmussen Ridge mine located nearby.

In 1997, Conda produced at record levels of almost 5% higher than the previous year, and also achieved lower average production costs due to improved operating practices and lower raw material costs.

CONDA PRODUCTION

thousands of tonnes



* Purchased in November 1995



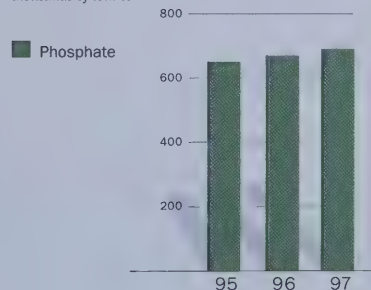
Redwater

The Redwater phosphate operation is located adjacent to the nitrogen operation near Edmonton, Alberta. Redwater produces approximately 700,000 tonnes of monoammonium phosphate annually from phosphate rock supplied from Togo, West Africa.

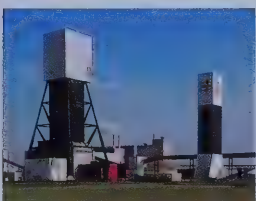
In 1997, the Redwater phosphate operation set an annual production record for the fifth consecutive year, primarily through continued service factor improvements.

REDWATER PRODUCTION

thousands of tonnes



POTASH OPERATIONS



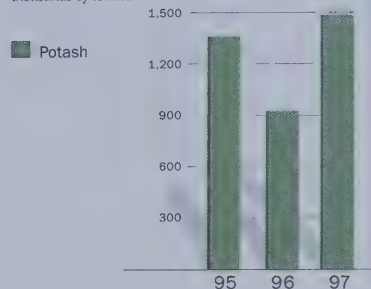
Vanscoy

Agrium's potash operations are located at Vanscoy, west of Saskatoon, Saskatchewan. The operation supplies premium and standard-grade potassium chloride (potash) to customers in North America and offshore. In August 1997, a major expansion was completed, with the project exceeding the design capacity increase. New equipment and raw ore stor-

age, both on the surface and underground, are facilitating higher mill operating rates, and compacted product tonnage will also increase with these enhancements. Production was at record levels for 1997 as a result of the expansion, with the majority of the increase being premium-grade product.

VANSCOY PRODUCTION

thousands of tonnes



NORTH AMERICAN RETAIL

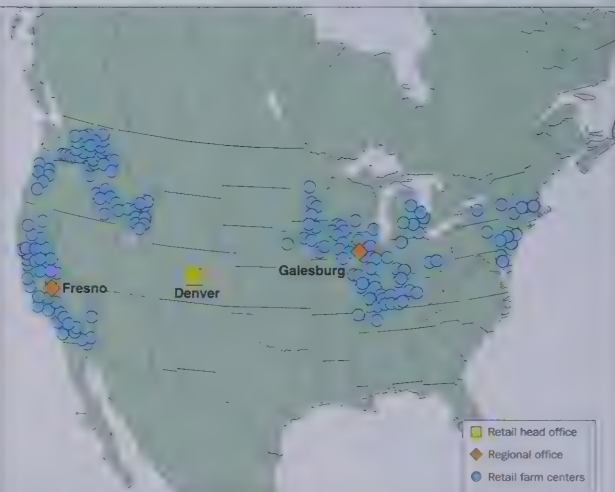
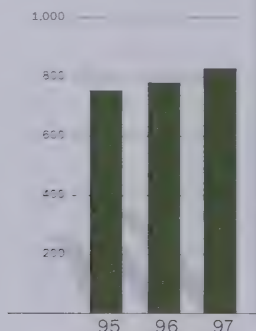


Agrium's North American Retail Business Unit ("Retail") is one of the largest and most geographically diverse farm retailers in the United States, and provides fertilizers, crop protection products, seeds and services to growers in **24 states**.

With a significant presence in the US Midwest, Northeast and West, Agrium addresses the requirements of a wide range of crop and climate conditions. Fertilizer is central to Retail's business, comprising 49% of sales, with 42% coming from chemicals and the remaining 9% from seed, services and other sources.

In 1997, Retail realized growth in sales of almost \$50 million and expanded by nine facilities in California and the Midwest. Revenues increased 4.2% over 1996 on a same store basis, while gross profit and EBITDA percentages improved slightly.

RETAIL SALES
US\$ millions



These achievements reflect Agrium's key business strategy: to remain geographically *well-positioned for peak performance* and committed to a high level of service at each of its 232 retail facilities across the US. This enables the division to recognize emerging trends and changing patterns in agriculture on a region-by-region basis. Customer feedback regarding everything from soil conditions to crop performance is also key in maintaining peak efficiency in addressing growers' requirements.



In 1996, Agrium's evaluation of agricultural chemical use projected a shift to increased pest control through new seed genetics and 1997 seed revenues confirmed this forecast, increasing 23% over the previous year. One of Retail's objectives for 1998 is to develop and implement a strategy to increase seed revenues, an area that represented 2% of Agrium's retail sales in 1997.

Consolidation is changing the way retail facilities deliver their products and services. *Significant economies of scale* are attainable in operations, product distribution, training and administrative functions. It is anticipated that in 1998, Retail will continue to acquire facilities in core market areas. These acquisitions will complement operations without increasing administrative expenses.

North American Retail provides Agrium with a dependable earnings stream and also benefits the other Business Units by providing an outlet for production. Attention to input from growers at the retail level means that Agrium can also capitalize on synergies between the Wholesale and New Products Divisions. This ensures that customers have access to the products they need and that our product development programs are relevant to North American agricultural trends.

By being well-positioned to address diversity and change, Agrium's North American Retail Division is also able to help customers become well-positioned. Agrium provides a spectrum of services and products to customers; and together with careful attention to their needs, the Division looks forward to an *ongoing exchange with growers* that will keep Agrium at the vanguard of North American retailers.



INTERNATIONAL



Agrium's International Business Unit ("International") identifies and develops business opportunities in emerging growth markets outside of North America. The overall strategy of the group is to focus on regions with the best potential for significant expansion in food and fibre production and with a *broad base of new customers* possessing agricultural land that is underutilized, yet enjoys good growing weather and sufficient infrastructure.

Key to this strategy is the ability to act quickly to secure distribution channels and to develop the lowest-cost supply positions in those regions that have high growth potential for agriculture.

The Mercosur or Southern Cone region of South America is the first priority. The region has a proven history of competitiveness in agriculture, with excellent crop growing conditions, good agricultural know-how and infrastructure potential. The region is very large, with approximately 125 million hectares in agricultural production. As river barge transportation develops on the immense interior river systems, very large new acreage could come into production. Soil nutrition levels in Brazil are low and are depleting in Argentina. With growers switching to new varieties of higher yielding seed and away from pasture rotation, they will need much *higher levels of nutrient application*, providing major potential for growth in the demand for fertilizer and agricultural input services throughout the Southern Cone region.

In 1997, 10 new North American-style full service farm input centers were built in Argentina, and Agrium now operates a total of 18 centers located throughout the humid regions of the Argentine Pampas. Based on our North American model of high service, these farm centers are new and unique to the region.

In late 1997, Agrium commissioned a 100,000-tonne-per-year capacity pelletized limestone plant in Argentina that will complement the application of urea to the relatively acidic soils in the region. This project has *significant expansion potential* as the value of this highly effective soil conditioning agent is demonstrated.





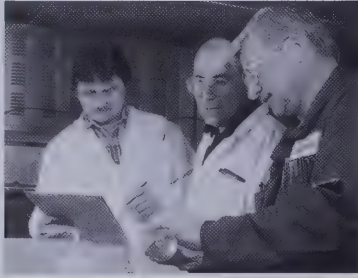
Agrium's future plans are to continue to expand distribution and market access channels. Construction of an efficient import facility at San Nicolas, Argentina, has already started. This terminal is accessible to ocean vessels and possesses excellent distribution logistics to serve Agrium's retail network and wholesale customers by rail, truck or barge shipments.

Future plans also include continued participation in the Profertil project to build a world-scale nitrogen plant at Bahia Blanca, located adjacent to deep water in the southern part of the Pampas. Agrium, Perez Companac, and YPF are equal one-third shareholders in the project, which *will be the lowest-cost supplier* of fertilizer to the region. Perez Companac and YPF are among the largest conglomerates in Argentina. The project is fully committed and mobilized, with field construction starting in early 1998 and completion scheduled for mid-year 2000.

International is also actively exploring other opportunities within our focus region in South America, including new developments, privatizations, and the formation of new alliances. In summary, Agrium has exposure to a wide range of *international opportunities* which could create sustainable and significant value for our shareholders.



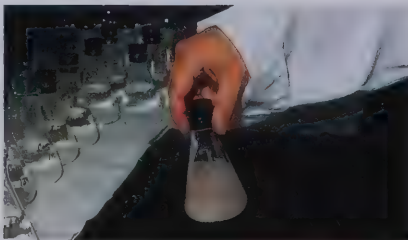
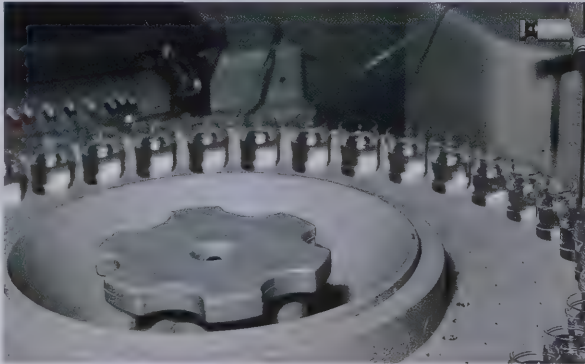
NEW PRODUCTS



Agrium's New Products Business Unit ("New Products") identifies, researches and commercializes new products and services which focus on meeting our customers' current and future needs.

The strategic focus of the Business Unit is on emerging and growing markets where, by utilizing unique and proprietary technologies, Agrium can give its customers value-added products. Research and development are the means by which this can be achieved, supplemented by Agrium's core competencies in new product development and project management.

The external competitive environment facing Agrium is one of constant change, rapid growth and fast new product development cycles. The unpredictable impact of technologies such as biotechnology, satellite-based remote sensing, precision agriculture and new agricultural chemistries also affect the market.



During 1997, New Products continued to focus on developing new products in three strategic areas: New Fertilizers, Agricultural Biologicals and Agricultural Information Management. By utilizing a well-managed idea generation process and "Frontier Research," the division leveraged the intellectual talent of universities, government laboratories and partner industries to ensure that Agrium continues to be at the *forefront of the industry*.



The New Fertilizers group, based in Carseland, Alberta, continued development of second-generation, lower-cost, controlled release urea ("CRU") products for the turf, consumer and agricultural specialty markets. Work commenced on scaling up the facility at Carseland to produce sufficient CRU to develop test markets for a wide range of crops, including strawberries, lettuce, cauliflower and even rice in Southeast Asia. US and Canadian patents were also obtained for a *new high analysis sulphur product* which will be produced at facilities at Redwater and test-marketed in Western Canada and the Pacific Northwest in the spring of 1998.

The Agricultural Biologicals group, based in Saskatoon, Saskatchewan and Lethbridge, Alberta, submitted the first joint NAFTA registration to the US and Canadian regulatory agencies for a biological product that stimulates root transplanting in forest nurseries. The group also continued working with Agrium's Retail affiliate in southern California to test-market new biologicals which stimulate the growth of ornamentals and bedding plants.

The New Products group has exceeded its targets in each of the last two years and anticipates significant contributions to Agrium's free cash flow early in the 21st century. The short-term plans of the group are to concentrate on developing the current portfolio of projects and to continue its mandate to search out new technology and position Agrium at the forefront of research and development in the fertilizer industry.



RESPONSIBILITY

AGRIUM OPERATES WITH A KEEN AWARENESS OF THE RESPONSIBILITY WE HAVE TO ALL OUR STAKEHOLDERS.

OUR GOAL IS TO CONTINUE TO BUILD LONG-TERM POSITIVE RELATIONSHIPS. 🌱



ENVIRONMENT, HEALTH AND SAFETY (EH&S)

Agrium is committed to safeguarding the environment. We are diligent about ensuring that the health and safety of employees, customers and the public not be affected by our operations. We are guided in our efforts in managing environmental, health and safety performance by the widely recognized ISO 14000 standard.

In the past, industry practices were such that environmental damage occurred. Initiatives are underway to restore affected areas to acceptable ecological conditions. Examples include protective groundwater recovery programs at Fort Saskatchewan, Alberta and the Homestead nitrogen operation in Nebraska. We have also seen significant improvements in soil quality through soil remediation at our retail facilities. These are just

some of the projects Agrium is pursuing in recognition of our environmental responsibilities.

Accident avoidance and risk analysis are also priorities for Agrium. We proactively identify and then reduce potential environment, health and safety-related hazards. We monitor all our operations extensively to ensure that standards in both our US and



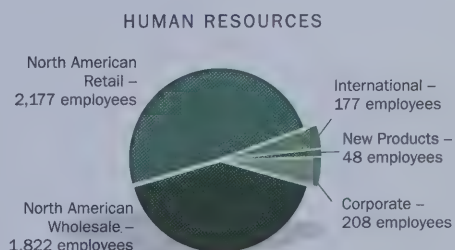
Canadian production facilities are consistent with all regulatory standards and requirements. A Corporate Crisis Management Plan has been developed and tested, and in 1998 the emergency response plans at each production facility will be upgraded to Agrium's new standard.

To accomplish our EH&S objectives, our post-merger EH&S organization includes a Board Committee of four Directors, and a Corporate Committee consisting of six senior officers and the Director of EH&S.

Our overall safety performance, based on injuries requiring time off work, was better than the industry average. The United States Congress recognized the Conda phosphate operations, under the EPA's Occupational Safety and Health Agency "Star" program, for its approach to safety, health and the environment.

HUMAN RESOURCES

Agrium's success is built upon the quality and commitment of its people. At the end of 1997, we employed a total of 4,432 people, down slightly from last year. The decrease was primarily due to the identification of synergies in corporate enabling services following the 1996 merger with Viridian Inc. The increase in the number of employees in Argentina is attributable to the opening of 10 additional retail outlets there.



GROWING WITH OUR COMMUNITIES

Agrium and its employees are involved in a large number of community outreach programs across North America, including mutual aid organizations, fundraising and conducting grade school tours of production facilities.

Agrium's corporate giving program supports agricultural, civic, educational, cultural and youth organizations, and Agrium is also a strong supporter of the United Way in both Canada and the US, matching employee donations dollar for dollar. In 1997, corporate and employee United Way contributions totaled over \$170,000.

BOARD OF DIRECTORS



G.W. MacLaren
Chairman
London, England



Neil Carragher
Toronto, Ontario



Ralph S. Cunningham
Houston, Texas



D. Grant Devine
Regina, Saskatchewan



Frank W. King
Calgary, Alberta

CORPORATE GOVERNANCE

Agrium's Board of Directors and the Board's five committees are responsible for the stewardship of the Company. Agrium's compliance with the guidelines of The Toronto Stock Exchange Committee on Corporate Governance may be found in the Company's Information Circular.

BOARD COMPOSITION AND MANDATE

The Board, in addition to traditional board responsibilities, specifically ensures that the processes for strategic planning, succession planning and assessing the management of the principal risks that could affect the Company's business are in place. The 10 members of the Board reflect a wide spectrum of experience.

COMMITTEES OF THE BOARD

There are five Committees of the Board: the Executive Committee, the Audit Committee, the Compensation Committee, the Corporate Governance and Nominating Committee and the Environmental, Health and Safety Committee. The President and Chief Executive Officer is a member of the Executive Committee, which the Board considers key to this Committee's effective functioning.

The following are the mandates of the Committees:

EXECUTIVE COMMITTEE

G.W. MacLaren (*chair*),
N. Carragher,
W.J. Robertson,
J.M. Van Brunt

This Committee was established to act in the Board's stead between Board meetings. Significant matters that are dealt with by the Executive Committee are forwarded to the full Board for final consideration.

AUDIT COMMITTEE

N. Carragher (*chair*),
R.S. Cunningham,
F.W. Proto,
T.D. Stacy

On behalf of the Board, this Committee ensures that the Company's financial statements are presented fairly and that internal controls are both in place and executed. Formal guidelines direct this Committee to undertake direct communication with both internal and external auditors, oversee management reporting, supervise internal controls and management information and review risk management issues on the Board's behalf.



Frank W. Proto
Regina, Saskatchewan



William J. Robertson
Calgary, Alberta



T. Don Stacy
Houston, Texas



James G. Temple
Picton, Ontario



John M. Van Brunt
Calgary, Alberta

COMPENSATION COMMITTEE

G.W. MacLaren (chair),

D.G. Devine,

T.D. Stacy

Compensation policies for the executive officers of the Company are set by this Committee. It also establishes the President and Chief Executive Officer's compensation and, in consultation with outside advisors, reviews the compensation of the Company's directors in the context of other Canadian corporations and participants in the North American fertilizer industry. This Committee reports at least yearly to the Board.

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

T.D. Stacy (chair),

R.S. Cunningham,

F.W. King,

G.W. MacLaren,

F.W. Proto

This Committee is responsible for the ongoing refinement of the Company's approach to corporate governance issues. This Committee also submits to the Board for its approval the Company's report on compliance with the guidelines of The Toronto Stock Exchange Committee on Corporate Governance. The Committee, on behalf of the Board, has undertaken an evaluation of the Board's effectiveness as well as that of the various Committees.

ENVIRONMENTAL, HEALTH & SAFETY COMMITTEE

J.G. Temple (chair),

D.G. Devine,

F.W. King,

W.J. Robertson

The Company's environmental responsibilities are the concern of this Committee. Its mandate is to ensure that the Company's activities take into consideration the health and safety of employees and the public.



MANAGEMENT'S DISCUSSION AND ANALYSIS

THIS DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL ACTIVITIES SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES. AMOUNTS ARE STATED IN MILLIONS OF U.S. DOLLARS UNLESS OTHERWISE INDICATED. ●

BASIS OF PRESENTATION

The Corporation conducts its operations through four strategic Business Units: North American Wholesale ("Wholesale"), North American Retail ("Retail"), New Products and International. Wholesale manufactures, distributes and sells fertilizers and related products to customers in Canada, the United States and other export markets. Retail purchases, distributes and markets agricultural inputs, primarily fertilizers and chemicals, and provides a range of application and agronomic services to growers in the United States which are tailored to their specific needs. New Products researches, develops and commercializes new agricultural products and services. International identifies and develops agriculture-related growth opportunities outside of North America and currently is engaged in active retail operations in Argentina. These strategic businesses are supported by various Corporate enabling functions. The Canadian fertilizer production and wholesale operations are conducted through the Agrium Partnership. Currently, only the results of Wholesale and Retail are sufficiently material to warrant separate analysis and discussion.

On December 10, 1996, Agrium Inc. issued common shares to the shareholders of Viridian Inc. ("Viridian") in exchange for all the issued and outstanding shares of Viridian. The resulting business combination has been accounted for using the pooling of interests method of accounting whereby the consolidated financial information reflects the assets, liabilities, and results of operations of Agrium and Viridian at the historical amounts recorded by these companies. This discussion and analysis of results of operations and financial activities has been prepared on the basis that Agrium and Viridian have constituted a single reporting entity for the periods covered, and is also presented before discontinued operations comprised of Viridian's former businesses of mining and refining, oil and gas, advanced industrial materials and related research and development activities, which were disposed of in 1996 and 1995.

Other significant transactions affecting the years under discussion (1997, 1996 and 1995) are the repurchase of approximately 11% of the outstanding common shares of the Corporation in 1997, the retirement of substantially all of Viridian's high-coupon debt in 1996, and the purchases of Western Farm Services, Inc. ("WFS"), a US retail marketing company, and Nu-West Industries, Inc. ("Nu-West"), a US phosphate fertilizer producer, both in 1995.

RESULTS OF OPERATIONS

1997 Compared to 1996

Consolidated

The following table summarizes the results of the Corporation for the years ended December 31, 1997 and 1996:

	1997				1996			
	Wholesale	Retail	Other	Total	Wholesale	Retail	Other	Total
Net sales	\$1,121.1	\$829.8	\$(13.0)	\$1,937.9	\$1,173.3	\$780.8	\$(50.2)	\$1,903.9
Cost of product	666.6	600.0	(22.6)	1,244.0	666.8	565.6	(38.3)	1,194.1
Gross profit	454.5	229.8	9.6	693.9	506.5	215.2	(11.9)	709.8
Selling	28.7	163.5	11.9	204.1	31.4	152.6	8.6	192.6
General and administrative	17.1	7.6	19.7	44.4	23.9	8.0	17.3	49.2
Depreciation and amortization	53.5	23.2	8.2	84.9	58.2	21.9	0.7	80.8
Research and development	—	—	4.7	4.7	—	—	2.5	2.5
Royalties, resource and other taxes	5.3	4.5	4.1	13.9	4.4	4.3	2.8	11.5
Other (income) expense	(8.6)	(3.9)	(4.5)	(17.0)	3.8	(2.9)	(16.5)	(15.6)
Earnings from operations before undernoted items:	\$ 358.5	\$ 34.9	\$(34.5)	358.9	\$ 384.8	\$ 31.3	\$(27.3)	388.8
Debt retirement costs				—				64.2
Amalgamation costs				—				19.7
Interest				45.8				57.9
Earnings from continuing operations before taxes				313.1				247.0
Income taxes				128.2				86.8
Earnings from continuing operations				\$ 184.9				\$ 160.2
Cash provided by continuing operations				\$ 399.4				\$ 228.7

Earnings from continuing operations for the year ended December 31, 1997 were \$184.9 million (\$1.43 per share), compared to \$160.2 million (\$1.16 per share) in 1996, an increase of \$24.7 million (\$0.27 per share). Cash provided by continuing operations before changes in working capital was \$399.4 million (\$3.10 per share) in 1997, an increase of \$170.7 million (75%) compared to \$228.7 million (\$1.66 per share) in 1996. Earnings and cash provided from continuing operations for 1996 included one-time charges of \$83.9 million (\$51.3 million after tax) associated with the merger with Viridian and the subsequent retirement of its high-coupon debt. Excluding these charges and the related tax impact, 1996 earnings and cash provided from continuing operations were \$211.5 million (\$1.54 per share) and \$280.0 million (\$2.03 per share) respectively.

Gross profit of \$693.9 million for 1997 declined by \$15.9 million from \$709.8 million in 1996, due mainly to lower selling prices for urea and nitrate fertilizers, as well as an increase in the cost of natural gas, the primary feedstock in the production of nitrogen-based fertilizers. The effect of these factors has been partially mitigated by increased potash margins and sales volumes and increased earnings from Retail operations.

Selling, general and administrative expenses of \$248.5 million for 1997 increased marginally from \$241.8 million in 1996. Increased expenses from expansion of Retail and International operations have largely been offset by synergies arising from the merger with Viridian.

Depreciation and amortization of \$84.9 million for 1997 increased by \$4.1 million from 1996. The impact of increased charges as a result of expanded Retail and International operations has been offset by an extension of the estimated useful life of the Fort Saskatchewan facility with a corresponding reduction in the depreciation charge.

Interest expense for 1997 decreased by \$12.1 million compared to 1996 due to the retirement of approximately \$400.0 million of Viridian's high-coupon debt in December 1996 and the subsequent refinancing in January 1997 at more favourable interest rates.

The Corporation's effective tax rate increased from 35.1% in 1996 to 40.9% in 1997, reflecting the relative impact of fixed permanent differences between accounting income before tax and income subject to tax, on a lower income base. The Corporation has approximately \$39.3 million of assets being amortized for accounting purposes which have no corresponding tax basis.

On a per share basis, the decrease in 1997 earnings was proportionately less as a result of the repurchase of 13.9 million (approximately 10%) of its common shares on February 25, 1997 for \$202.5 million, and a further 1.0 million shares for \$11.4 million over the third and fourth quarters of 1997.

Cash provided by continuing operations, although also impacted by lower nitrogen and phosphate margins in 1997, increased over 1996 levels due to the one-time charges relating to the Viridian merger in 1996, and to the additional deferral of taxes resulting from the corporate restructuring subsequent to the merger. On a per share basis, cash provided by continuing operations was also improved by the 1997 share repurchases.

North American Wholesale

The following table summarizes the results of operations of Wholesale for the years ended December 31, 1997 and 1996:

	1997			1996		
	Tonnes (000's)	Margin (\$/Tonne)	Gross Profit (\$ Millions)	Tonnes (000's)	Margin (\$/Tonne)	Gross Profit (\$ Millions)
Gross profit						
Nitrogen						
Ammonia	1,260	\$98.49	\$124.1	1,315	\$103.19	\$135.7
Urea	1,812	80.08	145.1	1,695	112.80	191.2
Ammonium nitrate and other	425	63.53	27.0	458	84.06	38.5
Total nitrogen	3,497	84.70	296.2	3,468	105.36	365.4
Potash	1,484	35.78	53.1	1,218	26.44	32.2
Phosphate*	1,135	73.92	83.9	1,089	80.72	87.9
Sulphate and other products	544	39.15	21.3	695	30.22	21.0
	6,660	\$68.24	454.5	6,470	\$ 78.28	506.5
Expenses						
Selling			28.7			31.4
General and administrative			17.1			23.9
Depreciation and amortization			53.5			58.2
Royalties, resource and other taxes			5.3			4.4
Other (income) expense			(8.6)			3.8
Earnings from operations			\$358.5			\$384.8

* Phosphate is comprised of 136 equivalent tonnes of liquid phosphate and 999 tonnes of dry phosphate in 1997 (1996: 138 and 951 tonnes respectively).

Overall

Wholesale gross profit for 1997 decreased by \$52.0 million (10%) from 1996, primarily as a result of lower urea and nitrate prices and the increased cost of natural gas. Partially offsetting these factors was an increase in potash volumes and margins, which had been adversely affected by a four-month strike in 1996.

Nitrogen

Gross profit of \$296.2 million attributable to the nitrogen group of products (ammonia, urea and ammonium nitrate and other) for 1997 represents a decrease of \$69.2 million (19%) from 1996, due mainly to lower urea selling prices and increased production costs arising primarily from higher natural gas prices, the primary input in the production of nitrogen-based fertilizers. The Corporation, however, still has a significant advantage over its US-based competitors because of lower natural gas input costs at its Alberta nitrogen production facilities, where the majority of its capacity is located.

Potash

Gross profit from potash operations of \$53.1 million in 1997 increased by \$20.9 million (65%) from 1996 due to a major expansion initiative completed in the third quarter of 1997, which added annual production of approximately 390,000 tonnes, and to firm prices. In addition, gross profit for 1996 was adversely affected by a four-month strike which concluded with Potash employees accepting the first-ever three-year contract.

Phosphate

Phosphate gross profit of \$83.9 million for 1997 was \$4.0 million (5%) lower than 1996, due to lower selling prices partially mitigated by lower production costs resulting from renegotiation of the sulphuric acid supply agreement and from unrestricted sulphuric acid supply in 1997.

Other Products

Other products include ammonium sulphate, other products purchased for resale and special products. Gross profit of \$21.3 million was virtually unchanged from 1996.

Expenses

Selling, general and administrative expenses of \$45.8 million for 1997 declined by \$9.5 million (17%) compared to 1996 due to synergies realized as a result of the merger of Agrium and Viridian. Depreciation and amortization declined slightly due to a reassessment of the useful life of Viridian's facilities following the merger. Other income for 1997 was comprised mainly of proceeds of a business interruption insurance claim, while other expense for 1996 included costs relating mainly to the 1996 strike by Potash employees.

North American Retail

The following table summarizes the results of operations of Retail for the years ended December 31, 1997 and 1996:

	1997			1996		
	Net Sales	Cost of Sales	Gross Profit	Net Sales	Cost of Sales	Gross Profit
Gross profit						
Fertilizers	\$410.0	\$305.9	\$104.1	\$379.6	\$280.9	\$ 98.7
Chemicals	351.1	295.4	55.7	337.3	283.4	53.9
Other products and services	68.7	(1.3)	70.0	63.9	1.3	62.6
	<u>\$829.8</u>	<u>\$600.0</u>	<u>229.8</u>	<u>\$780.8</u>	<u>\$565.6</u>	<u>215.2</u>
Expenses						
Selling			163.5			152.6
General and administrative			7.6			8.0
Depreciation and amortization			23.2			21.9
Royalties, resource and other taxes			4.5			4.3
Other income			(3.9)			(2.9)
Earnings from operations			<u>\$ 34.9</u>			<u>\$ 31.3</u>

Retail sales and gross profit for 1997 increased by approximately 6% over 1996 levels, reflecting both the addition of nine retail outlets in 1997 and increased market share.

Other

Other includes the activity of the International and New Products Business Units together with the Corporate enabling functions and eliminations of product transfers between Retail and Wholesale. Other earnings from operations decreased from a loss of \$27.3 million in 1996 to a loss of \$34.5 million in 1997. The primary reasons for this decrease include: lower interest income of \$12.0 million due to utilization of significant cash balances in the share repurchase programs and debt reduction in 1997; higher costs associated with expansion of the International Business Unit in Argentina; and losses in 1996 on disposal of fixed assets.

*1996 Compared to 1995**Consolidated*

The following table summarizes the results of the Corporation for the years ended December 31, 1996 and 1995:

	1996				1995			
	Wholesale	Retail	Other	Total	Wholesale	Retail	Other	Total
Net sales	\$1,173.3	\$780.8	\$(50.2)	\$1,903.9	\$1,056.5	\$753.7	\$(63.1)	\$1,747.1
Cost of product	666.8	565.6	(38.3)	1,194.1	579.3	550.4	(65.9)	1,063.8
Gross profit	506.5	215.2	(11.9)	709.8	477.2	203.3	2.8	683.3
Selling	31.4	152.6	8.6	192.6	24.6	143.9	4.1	172.6
General and administrative	23.9	8.0	17.3	49.2	23.2	3.4	10.0	36.6
Depreciation and amortization	58.2	21.9	0.7	80.8	44.6	19.2	1.2	65.0
Research and development	—	—	2.5	2.5	—	—	3.0	3.0
Royalties, resource and other taxes	4.4	4.3	2.8	11.5	5.6	3.9	4.8	14.3
Other (income) expense	3.8	(2.9)	(16.5)	(15.6)	0.4	(1.1)	(17.0)	(17.7)
Earnings from operations								
before undernoted items:	\$ 384.8	\$ 31.3	\$(27.3)	388.8	\$ 378.8	\$ 34.0	\$ (3.3)	409.5
Debt retirement costs				64.2				—
Amalgamation costs				19.7				—
Interest				57.9				53.2
Earnings from continuing operations before taxes				247.0				356.3
Income taxes				86.8				137.7
Earnings from continuing operations				\$ 160.2				\$ 218.6
Cash provided by continuing operations				\$ 228.7				\$ 305.7

Earnings from continuing operations for the year ended December 31, 1996 were \$160.2 million (\$1.16 per share), compared to \$218.6 million (\$1.64 per share) in 1995, a decrease of \$58.4 million (\$0.48 per share). Cash provided by continuing operations before changes in working capital was \$228.7 million (\$1.66 per share) in 1996, a decrease of \$77.0 million (\$0.63 per share) compared to \$305.7 million (\$2.29 per share) in 1995.

1996 earnings were lower than 1995 due primarily to costs of \$83.9 million (\$51.3 million after tax) associated with the merger with Viridian and the subsequent retirement of its high-coupon debt. 1996 earnings excluding these one-time costs and their related tax effect were \$211.5 million (\$1.54 per share). In addition, 1996 general and administrative expenses increased by \$12.6 million (34%) over 1995 due to the Viridian name change, other general corporate costs, and the expansion of International. Other expenses in 1996 included expenditures related to International, items related to New Products, costs related to the four-month strike by unionized employees at the potash operation, and losses on disposal of fixed assets, which also reduced 1996 earnings.

1996 interest expense increased by \$4.7 million (9%) over 1995, due primarily to the increased debt levels during the year resulting from the acquisition of Nu-West in late 1995.

The decrease in the effective income tax rate to 35.1% in 1996 from 38.7% in 1995 was primarily from recognition of previously unrecognized tax pools.

North American Wholesale

The following table summarizes the results of operations of Wholesale for the years ended December 31, 1996 and 1995:

	1996			1995		
	Tonnes (000's)	Margin (\$/Tonne)	Gross Profit (\$ Millions)	Tonnes (000's)	Margin (\$/Tonne)	Gross Profit (\$ Millions)
Gross profit						
Nitrogen						
Ammonia	1,315	\$103.19	\$135.7	1,252	\$107.75	\$134.9
Urea	1,695	112.80	191.2	1,717	103.61	177.9
Ammonium nitrate and other	458	84.06	38.5	426	85.68	36.5
Total nitrogen	3,468	105.36	365.4	3,395	102.89	349.3
Potash	1,218	26.44	32.2	1,304	35.58	46.4
Phosphate*	1,089	80.72	87.9	842	67.81	57.1
Sulphate and other	695	30.22	21.0	618	39.48	24.4
	6,470	\$ 78.28	506.5	6,159	\$77.48	477.2
Expenses						
Selling			31.4			24.6
General and administrative			23.9			23.2
Depreciation and amortization			58.2			44.6
Royalties, resource and other taxes			4.4			5.6
Other expense			3.8			0.4
Earnings from operations			\$384.8			\$378.8

*Phosphate is comprised of 138 equivalent tonnes of liquid phosphate and 951 tonnes of dry phosphate in 1996 (1995: 26 and 816 tonnes respectively).

Overall

Wholesale gross profit for 1996 increased by \$29.3 million (6%) from 1995. This increase reflects the acquisition of Nu-West in late 1995, higher nitrogen margins and increased sales volumes, which partially offset the negative effects of the four-month strike at the potash operation and the impact of higher natural gas costs, particularly in the United States.

Nitrogen

Gross profit attributable to the nitrogen group of products of \$365.4 million for 1996 represented a \$16.1 million (5%) increase from 1995, due mainly to higher prices for urea. These increases more than offset production cost increases of \$15.1 million, due mainly to the increased cost of natural gas.

Potash

Gross profit from potash operations of \$32.2 million for 1996 represented a decrease of \$14.2 million (31%) from 1995. A four-month strike at the potash operation resulted in lower net sales and increased cost of product sold as the Corporation was required to purchase potash on the open market to meet commitments. Potash production levels were 438,000 tonnes (32%) lower than in 1995.

Phosphate

Phosphate gross profit for 1996 was \$87.9 million, an increase of \$30.8 million (54%) from 1995 due to higher sales volumes and prices. The full-year impact of the acquisition of Nu-West in October 1995 was the main reason for increased sales volumes.

Other Products

Other products include ammonium sulphate, special products and other products purchased for resale. Gross profit of \$21.0 million for 1996 was down \$3.4 million (14%) from 1995 due mainly to changes in product mix and lower ammonium sulphate margins.

Expenses

Selling, general and administrative expenses of \$55.3 million for 1996 increased by \$7.5 million (16%) over 1995, and depreciation and amortization for the year was \$58.2 million, an increase of \$13.6 million (30%). These increases reflect the acquisition of Nu-West in October 1995 and an increase in depreciable assets due to capital additions to production facilities.

North American Retail

The following table summarizes the results of operations of Retail for the years ended December 31, 1996 and 1995:

	1996			1995		
	Net Sales	Cost of Sales	Gross Profit	Net Sales	Cost of Sales	Gross Profit
Gross profit						
Fertilizers	\$379.6	\$280.9	\$98.7	\$359.7	\$250.1	\$109.6
Chemicals	337.3	283.4	53.9	328.0	276.2	51.8
Other products and services	63.9	1.3	62.6	66.0	24.1	41.9
	<u>\$780.8</u>	<u>\$565.6</u>	215.2	<u>\$753.7</u>	<u>\$550.4</u>	203.3
Expenses						
Selling			152.6			143.9
General and administrative			8.0			3.4
Depreciation and amortization			21.9			19.2
Royalties, resource and other taxes			4.3			3.9
Other income			(2.9)			(1.1)
Earnings from operations			<u>\$31.3</u>			<u>\$ 34.0</u>

Retail sales for 1996 increased by \$27.1 million (4%) over 1995 levels due to favourable spring weather conditions and the acquisition of twelve additional farm centres in late 1995. Gross profit, as a percentage of sales, increased marginally, with improved margins in all product groups. Increases in selling, general and administrative expenses and depreciation, also due to the additional farm centres and higher incentive programs, more than offset increases in gross profit, however, resulting in a decline in earnings from operations of \$2.7 million (8%) over 1995.

INVESTING AND FINANCING ACTIVITIES

Financing and Divestitures

On November 24, 1995, the Corporation transferred its interest in certain non-core activities of mining, processing, refining and marketing of commodity cobalt and nickel; international oil and gas; and its engineering and metallurgical technologies business, together with rights in respect of all associated intellectual property and \$157.7 million in cash, to a wholly-owned subsidiary. In return the Corporation received 71,846,704 restricted voting shares of the subsidiary. Following this reorganization, the Corporation distributed its entire investment in the subsidiary to its shareholders, in connection with a rights offering, at the net book value of its net assets of \$155.4 million, after deducting the net proceeds of the rights offering of \$243.0 million. The fair value was estimated to be in excess of net book value.

In December 1995, the Corporation completed a \$175.0 million private placement debt financing with US institutional investors. The unsecured debt was issued in two tranches of \$100.0 million of 7.06% senior notes maturing in 2010, and \$75.0 million of 6.86% senior notes maturing in 2007. The majority of the proceeds was used to repay higher-cost secured debt with the balance added to working capital.

During 1995, 3,656,250 outstanding warrants for the purchase of the Corporation's common shares were exercised at an exercise price of \$7.26 per common share for total proceeds of \$26.5 million.

Pursuant to a normal course issuer bid initiated in March 1995, the Corporation repurchased 2,348,400 common shares for \$26.0 million in 1995 at an average cost of \$11.41 per share and 951,600 common shares in 1996 for \$13.5 million at an average cost of \$13.74 per share.

In May 1996, the Corporation completed the sale of its Canadian oil and gas business for \$60.4 million in cash and four million share purchase warrants of the purchaser, resulting in a net loss after taxes of \$5.7 million which is included in, and reported as, discontinued operations net of income taxes for 1996. The four million share purchase warrants were subsequently sold on December 9, 1996 for \$6.6 million with the full proceeds recorded as a gain.

On June 26, 1996, the Corporation transferred cash, its advanced industrial materials business and related research and development activities and other industrial businesses to a new wholly-owned subsidiary. The book value of net assets of the subsidiary was subsequently distributed to the Corporation's shareholders for \$247.8 million, including cash of \$136.6 million. The fair value was estimated to be in excess of book value.

On December 23, 1996, pursuant to an offer to purchase for cash and consent solicitation, the Corporation retired almost all of its outstanding high-coupon debt of \$404.0 million. On January 28, 1997, the Corporation obtained long-term financing in the form of \$75.0 million of 7.0% notes due 2004, \$100.0 million of 7.7% debentures due 2017 and \$125.0 million of 7.8% debentures due 2027. The net proceeds of the debt offerings were used to repay outstanding debt under the Corporation's revolving term credit facility.

On February 25, 1997, pursuant to a substantial issuer bid, the Corporation repurchased 13.9 million of its common shares at Cdn. \$20.00 per share, representing approximately 10% of its outstanding common shares.

In the third quarter of 1997, the Corporation initiated a normal course issuer bid to repurchase up to 5% or approximately 6.35 million of its common shares. Since announcing this share repurchase program, the Corporation has repurchased 1,302,900 common shares at an average cost of \$11.60 per share through to January 31, 1998.

Cash dividends of \$10.7 million were paid on common shares in 1997 compared with cash dividends of \$61.3 million paid on common shares and preferred shares in 1996 and dividends of \$8.5 million in 1995. The increase in 1996 is mostly attributable to a special cash dividend of Cdn. \$1.00 per common share.

Investing

The following table summarizes the capital expenditures of the Corporation for the years ended December 31, 1995 to 1997:

	1997	1996	1995
North American Wholesale	\$ 77.7	\$119.0	\$60.3
North American Retail	26.1	24.8	24.0
International	27.6	8.0	—
Corporate and Other	12.2	1.1	3.9
	\$143.6	\$152.9	\$88.2

Capital expenditures related to continuing operations were \$143.6 million in 1997, compared with \$152.9 million in 1996 and \$88.2 million in 1995. 1997 capital expenditures included \$31.9 million to sustain wholesale operations, \$46.0 million for the expansion of existing production facilities, \$26.1 million for retail assets, \$27.6 million for the expansion of International operations and \$12.2 million of other expenditures.

In January 1995, the Corporation acquired 100% of the common shares of WFS, a US retail marketing company, in exchange for \$31.5 million of 5.5% cumulative redeemable convertible preferred shares. These preferred shares were subsequently converted into common shares by the holder in March 1996.

In November 1995, the Corporation acquired all the common shares of Nu-West, a US producer of phosphate fertilizers, for a cash consideration of \$98.9 million, and during 1996 repurchased or redeemed all of the 290,344 outstanding preferred shares of Nu-West for \$47.0 million.

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

As at December 31, 1997, the Corporation's working capital amounted to \$337.6 million, including cash and short-term investments of \$8.9 million. Lines of credit available under term and operating facilities aggregated \$287.3 million, of which only \$68.8 million was utilized.

Effective January 27, 1997, the Corporation amended its unsecured four-year term loan to decrease the amount available thereunder from \$400.0 million to \$192.8 million. \$35.5 million of this facility was utilized as at December 31, 1997. Additional lines of credit include a Cdn. \$35.0 million demand operating loan facility which may be drawn in equivalent amounts in US dollars. This facility was unused as at December 31, 1997. Also, in December 1997, the Corporation launched a Cdn. \$150.0 million (or an equivalent amount in US dollars) commercial paper program. The paper is rated investment grade by the two Canadian rating agencies. Dominion Bond Rating Service Limited has rated the program at R-1(low) and Canadian Bond Rating Service has assigned a rating of A-1. At December 31, 1997, \$7.0 million was issued and outstanding. The Corporation's intention is to reduce its borrowed amount authorized under the four-year term loan by any amount drawn under this program.

In October 1995, a group of US banks agreed to provide Agrium US Inc. with an unsecured revolving credit facility with a termination date of October 5, 2000. The facility consists of a base revolving credit of up to \$70.0 million and an excess revolving credit of up to \$30.0 million for the period May 1 and ending on November 30 of each year during the term of the agreement. Agrium US Inc. may borrow at interest rates related to US prime rates or the London inter bank offered rates. As at December 31, 1997, \$26.3 million of this facility was utilized.

Under the terms of these arrangements, the Corporation is required to maintain various financial ratios and other covenants.

The Corporation and its partners completed the first round of the bidding process for long-term financing for the \$600.0 million Profertil nitrogen project in Argentina. Negotiations are currently underway with two banking consortiums to finance a significant portion of the project with non-recourse debt. Equipment has been ordered and construction is expected to begin in April 1998.

Capital Requirements

Requirements for working capital are subject to substantial seasonal fluctuation. Typically, sales volumes are highest in the spring with a secondary peak in the fall. Product inventories increase in the late fall, winter and summer periods. Accounts receivable are high in late spring and early summer. Management considers debt facilities adequate to fund these seasonal fluctuations.

Planned expenditures for 1998 are expected to be approximately \$216.1 million, of which \$149.3 million relates to investment projects and the balance to sustaining existing operations. \$55.2 million relating to the construction of the Argentina nitrogen facility will be project financed on a non-recourse basis. Other major expenditures include \$44.3 million for the development of the Corporation's phosphate rock deposit located near Kapuskasing, Ontario, and the modifications to the Redwater, Alberta facility to enable the plant to process the new rock. \$66.8 million will be required to sustain existing retail and wholesale operations, and \$49.8 million will be spent on other projects.

Scheduled principal repayments on long-term debt amount to \$1.2 million in 1998.

Management believes that cash flow will be more than adequate to meet capital expenditure and debt service requirements during the next two years.

The Corporation leases bulk tank and hopper rail cars, and most of its off-site dry storage facilities are under short to medium-term operating leases. It also contracts third-party pipeline, truck, lake vessel and barge facilities to transport its products. The aggregate annual minimum payments under these operating and office leases are as follows: 1998 – \$23.2 million; 1999 – \$19.1 million; 2000 – \$15.5 million; 2001 – \$12.8 million; and 2002 – \$10.8 million. The Corporation does not anticipate any material interruption in its current operating leases or in its ability to lease, renew leases or contract for such facilities and services.

The Corporation has declared and paid dividends in each of the periods under review. The declaration and amount of future common share dividends are decided by the Board of Directors and are subject to earnings and financial requirements, covenants in debt financing agreements and other conditions prevailing at the time.

Risks and Uncertainties

The Corporation is subject to the risks and uncertainties inherent in the fertilizer business. Financial results are subject to fluctuations in fertilizer prices, natural gas costs and foreign exchange rates over which it has limited control. In addition, the Corporation is subject to the normal risks of conducting business in an international environment where changes in government could potentially lead to amendments to fiscal terms.

The approximate net after-tax earnings sensitivity to fluctuations in wholesale prices for nitrogen phosphate and potash, the cost of natural gas, potash production volume and currency exchange rates are shown in the following table based on actual levels of operation in 1997. A change in one factor may compound or offset another. Since the table does not consider these inter-relationships, it should not be used to predict results.

Factor	Change in Factor	Net Earnings Impact (\$ Millions)
Nitrogen		
Price of ammonia	\$5.00/tonne	\$ 3.6
Price of urea	\$5.00/tonne	\$ 5.3
Price of ammonium sulphate	\$5.00/tonne	\$ 0.7
Price of ammonium nitrate	\$5.00/tonne	\$ 1.2
Price of urea ammonium nitrate solution	\$5.00/tonne	\$ 0.2
Cost of natural gas	\$0.10/GJ	\$(5.0)
Potash		
Price of potash	\$5.00/tonne	\$ 4.5
Production volume	100,000 tonnes/yr	\$ 2.8
Phosphate		
Price of phosphate P ₂ O ₅ equivalent (annualized)	\$5.00/tonne	\$ 3.2
Exchange rate		
From Cdn.\$ to US\$	Cdn. \$0.01	\$ 0.7
Interest rates	1.0%	\$(3.2)

The Corporation manages its exposure to fluctuating natural gas prices through the use of derivative instruments and maintains insurance programs to protect against losses through accidental damage to its assets. Management regularly evaluates these programs to ensure an appropriate balance is maintained between underlying business risk and the cost of such programs.

The Corporation has been advised by the respective vendors of its principal financial systems that these systems are in compliance with the upcoming millennium change. Testing of these systems will take place in 1998. In addition, a detailed review of older process control systems is presently being conducted to determine any changes necessary. If required, changes to these systems will be completed in the latter half of 1998. Since the Corporation's principal financial systems are understood to be Year 2000 compliant, the costs associated with changes to the remaining systems are expected to be immaterial.

ENVIRONMENTAL ACTIVITIES

The Corporation's operations are affected by federal, provincial, state and local laws and regulations regarding environmental protection throughout the United States and Canada. Expenditures relating to compliance with these laws are considered to be part of the normal course of business. Environmental laws and regulations in the United States and Canada have changed substantially and rapidly in recent years and the Corporation anticipates that these changes will continue. The Corporation is committed to protecting the quality of the environment in which it operates and will conduct every aspect of its business in conformance with applicable laws and regulations. In the absence of such laws, responsible practices will be used to minimize environmental impact. The Corporation does not expect its expenditures for compliance to have a materially adverse effect on its operations or financial condition.

OUTLOOK

Wholesale

Revenues and cash flow from Wholesale operations are difficult to predict in the current uncertain international price environment. Low international prices, particularly for urea, which have characterized 1997, may continue into 1998 if China continues to be absent from the market, and if planned international production capacity comes on stream. However, world grain inventories remain low and some excess production capacity is now being shut down. There are also indications of China's willingness to re-enter the fertilizer market and management is optimistic of a partial recovery in prices in the coming year. In the interim, the Corporation continues to be partially cushioned from low international prices in its main market areas and has also benefited from diversification into other product areas, primarily potash, where both demand and pricing remain strong.

Production costs are expected to stabilize. The cost of natural gas, the primary input in the manufacture of nitrogen-based fertilizers, increased in 1997, particularly in the United States, but there has been some softening in prices of late and the Corporation has also hedged through swap and forward contracts approximately 32% of its natural gas requirements for the coming year at prices approximating 1997 levels. Approximately 86% of the Corporation's nitrogen production is located in Alberta, Canada, and it continues to maintain an advantage over US-based competitors as a result of the significant differential between Canadian and US gas prices.

Retail

The Corporation will continue to expand its Retail activity in the United States through acquisition of new retail outlets, but growth is expected to be modest. Retail margins have historically been fairly consistent year over year, and are not expected to change significantly in 1998.

International

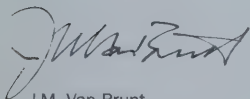
With the commencement of construction of its major new nitrogen facility in Argentina scheduled for early 1998, the Corporation intends to consolidate its position in Argentina through the establishment of distribution and terminal facilities and through modest growth in its existing Retail outlets. The Corporation will continue investigation of other international opportunities.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The consolidated financial statements and all information contained in this annual report are the responsibility of management and the Board of Directors of the Corporation. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgements based on currently available information. The Corporation has established an internal audit program and accounting and reporting systems supported by internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the financial records. The financial information presented throughout this annual report is consistent with the financial statements.

KPMG, an independent firm of chartered accountants, has been appointed by the shareholders as external auditors of the Corporation. The Auditors' Report to the Shareholders, which describes the scope of their examination and expresses their opinion, is presented herein.

The Audit Committee of the Board of Directors, whose members are not employees of the Corporation, meets with management, the internal auditors and the independent auditors to satisfy itself that the responsibilities of the respective parties are properly discharged and to review the consolidated financial statements before they are presented to the Board for approval.



J.M. Van Brunt
President and
Chief Executive Officer

Calgary, Canada

March 1, 1998



G.A. Milne
Vice President, Finance and
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Agrium Inc. as at December 31, 1997 and 1996 and the consolidated statements of operations, changes in financial position and changes in shareholders' equity for each of the years in the three year period ended December 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1997 in accordance with generally accepted accounting principles.



Chartered Accountants

Calgary, Canada

March 1, 1998

CONSOLIDATED BALANCE SHEETS

As at December 31

(Millions of US dollars)

1997

1996

ASSETS

Current Assets

Cash and short-term investments	\$ 8.9	\$ 52.5
Accounts receivable (Note 6)	313.4	259.1
Income and other taxes recoverable	39.7	10.2
Inventories (Note 7)	247.9	245.8
Prepaid expenses	27.1	32.8

637.0 600.4

Capital assets (Note 8)

878.0 821.4

Other assets (Note 9)

86.4 106.5

Goodwill

59.9 62.2

\$1,661.3 \$1,590.5

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Bank indebtedness (Note 10)	\$ 68.8	\$ 298.4
Accounts payable and accrued liabilities	222.4	252.1
Dividends payable	7.0	3.7
Current portion of long-term debt (Note 11)	1.2	2.6

299.4 556.8

Long-term debt (Note 11)

483.2 184.3

Other liabilities (Note 12)

52.5 71.0

Deferred income taxes

192.3 67.1

Minority interest

2.5 10.3

1,029.9 889.5

Shareholders' Equity

Share capital (Note 13)	389.3	431.1
Contributed surplus	—	50.7
Retained earnings	257.8	203.7
Cumulative translation adjustment	(15.7)	15.5

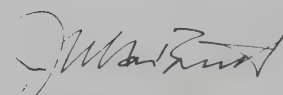
631.4 701.0

\$1,661.3 \$1,590.5

Commitments (Note 14)

See accompanying notes.

APPROVED BY THE BOARD:


Director


Director

CONSOLIDATED STATEMENTS OF OPERATIONS

	<i>Years ended December 31</i>		
<i>(Millions of US dollars)</i>	1997	1996	1995
Net sales	\$1,937.9	\$1,903.9	\$1,747.1
Cost of product	1,244.0	1,194.1	1,063.8
Gross profit	693.9	709.8	683.3
Expenses			
Selling	204.1	192.6	172.6
General and administrative	44.4	49.2	36.6
Depreciation and amortization	84.9	80.8	65.0
Research and development	4.7	2.5	3.0
Royalties, resource and other taxes	13.9	11.5	14.3
Interest on long-term debt	33.6	53.2	49.8
Other interest	12.2	4.7	3.4
Interest income and other	(17.0)	(15.6)	(17.7)
	380.8	378.9	327.0
Earnings from continuing operations before undernoted items and income taxes	313.1	330.9	356.3
Debt retirement costs	—	64.2	—
Amalgamation costs	—	19.7	—
Earnings from continuing operations before income taxes	313.1	247.0	356.3
Income taxes (Note 16)	128.2	86.8	137.7
Earnings from continuing operations	184.9	160.2	218.6
Discontinued operations, net of income taxes (Note 5)	—	(9.1)	27.7
Net earnings	\$ 184.9	\$ 151.1	\$ 246.3
Earnings per common share (Note 17)			

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	<i>Years ended December 31</i>		
<i>(Millions of US dollars)</i>	1997	1996	1995
Operating			
Earnings from continuing operations	\$184.9	\$160.2	\$218.6
Items not involving cash:			
Depreciation and amortization	84.9	80.8	65.0
Deferred income taxes (recovery)	129.6	(12.3)	22.1
Cash provided by continuing operations before changes in non-cash working capital	399.4	228.7	305.7
Net change in non-cash working capital (Note 18)	(109.7)	(39.5)	19.1
Cash provided by continuing operations	289.7	189.2	324.8
Cash provided by (used in) discontinued operations	-	18.1	(18.7)
Cash provided by operating activities	289.7	207.3	306.1
Investing			
Capital assets – continuing operations	(143.6)	(152.9)	(88.2)
Proceeds from disposal of assets and investments	0.3	12.8	1.4
Acquisition of subsidiaries, net of cash acquired	-	(47.0)	(130.8)
Capital assets – discontinued operations	-	-	(68.5)
Disposal of oil and gas interests	-	60.4	-
Cash received (paid) on distributions to shareholders of discontinued operations (Note 5)	-	(136.6)	85.3
Other	(37.3)	(13.5)	(6.1)
Cash used in investing activities	(180.6)	(276.8)	(206.9)
Financing			
Common shares	(209.5)	3.4	4.2
Preferred shares	-	-	31.5
Bank indebtedness	(229.5)	238.8	6.9
Issue of long-term debt	301.4	-	175.0
Repayment of long-term debt	(4.4)	(405.4)	(117.4)
Dividends paid	(10.7)	(61.3)	(8.5)
Cash provided by (used in) financing activities	(152.7)	(224.5)	91.7
Increase (decrease) in cash position	(43.6)	(294.0)	190.9
Cash position – beginning of year	52.5	346.5	155.6
Cash position – end of year	\$ 8.9	\$ 52.5	\$346.5

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of US dollars and millions of shares)

	Share Capital				Contributed Surplus	Retained Earnings	Cumulative Translation Adjustment	Total
	Preferred Shares	Preferred Amount	Common Shares	Common Amount				
Balance as at December 31, 1994	–	\$ –	132.7	\$544.4	\$50.7	\$133.4	\$ (7.3)	\$721.2
Repurchased for cash	–	–	(2.4)	(7.1)	–	(18.9)	–	(26.0)
Issued on exercise of stock options	–	–	0.5	3.0	–	–	–	3.0
Issued on employee incentive plans	–	–	0.2	1.8	–	–	–	1.8
Exercise of warrants	–	–	3.7	26.5	–	–	–	26.5
Issued on acquisition of WFS in 1995	1.2	31.5	–	–	–	–	–	31.5
Net earnings	–	–	–	–	–	246.3	–	246.3
Dividends declared	–	–	–	–	–	(8.9)	–	(8.9)
Distribution to shareholders of discontinued operations (Note 5)	–	–	–	–	–	(155.4)	–	(155.4)
Translation adjustment	–	–	–	–	–	–	24.4	24.4
Balance as at December 31, 1995	1.2	31.5	134.7	568.6	50.7	196.5	17.1	864.4
Repurchased for cash	–	–	(1.0)	(3.0)	–	(10.5)	–	(13.5)
Issued on exercise of stock options	–	–	2.7	14.6	–	–	–	14.6
Issued on employee incentive plans	–	–	0.4	4.6	–	–	–	4.6
Conversion of preferred shares to common shares	(1.2)	(31.5)	3.6	31.5	–	–	–	–
Share issue costs	–	–	–	(2.8)	–	–	–	(2.8)
Distribution to shareholders of discontinued operations (Note 5)	–	–	–	(182.4)	–	(65.4)	–	(247.8)
Net earnings	–	–	–	–	–	151.1	–	151.1
Dividends declared	–	–	–	–	–	(61.7)	–	(61.7)
Business combination costs (Note 4)	–	–	–	–	–	(6.3)	–	(6.3)
Translation adjustment	–	–	–	–	–	–	(1.6)	(1.6)
Balance as at December 31, 1996	–	–	140.4	431.1	50.7	203.7	15.5	701.0
Repurchased for cash	–	–	(14.9)	(46.2)	(50.7)	(117.0)	–	(213.9)
Issued on exercise of stock options	–	–	0.7	4.4	–	–	–	4.4
Net earnings	–	–	–	–	–	184.9	–	184.9
Dividends declared	–	–	–	–	–	(13.8)	–	(13.8)
Translation adjustment	–	–	–	–	–	–	(31.2)	(31.2)
Balance as at December 31, 1997	–	\$ –	126.2	\$389.3	\$ –	\$257.8	\$(15.7)	\$631.4

See accompanying notes.

1. DESCRIPTION OF THE BUSINESS

Agrium Inc. (the "Corporation") is an integrated fertilizer company. The Corporation's assets include six nitrogen production facilities in Alberta, Texas and Nebraska, two phosphate production facilities in Alberta and Idaho, one phosphate rock mine in Idaho, one potash mine and mill in Saskatchewan and the related North American wholesale distribution and storage system. The Corporation also owns a retail business of crop production inputs in Canada, the United States and Argentina. The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES

The Corporation's accounting policies are in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") and except as outlined in Note 20 are in accordance with accounting principles generally accepted in the United States ("US GAAP"). When necessary, the financial statements include amounts based on informed estimates and best judgements of management. Certain comparative figures have been reclassified to conform with the current year's presentation.

Foreign Currency

The US dollar is the unit of measurement for the majority of the Corporation's business transactions. Accordingly, the US dollar is the Corporation's reporting currency. The Corporation's non-US operations are considered self-sustaining and are translated into US dollars using the current rate method. Under this method, assets and liabilities are translated at year-end exchange rates and items included in the statements of operations are translated at weighted average rates. The resulting translation gains and losses are deferred as a separate component of shareholders' equity until there is a realized reduction in the net investment.

Cash and Short-Term Investments

Short-term investments with an original maturity of three months or less are considered to be cash equivalents and are stated at their fair value.

Inventories

Inventories, consisting of fertilizer and chemicals, are valued at the lower of average cost and net realizable value. Operating supplies are valued at average cost less allowances for obsolescence. Raw materials inventory is comprised of phosphate rock.

Capital Assets

Capital assets are carried at cost and include the cost of renewals, betterments and capitalized interest. Maintenance and repair expenditures are expensed as incurred. When assets are sold or abandoned, the recorded costs and related accumulated depreciation are removed from the accounts and any gains or losses are included in earnings.

Depreciation is calculated on the straight-line method using rates based on the estimated service lives of the respective assets, ranging from three to twenty-five years. Depreciation is not provided on major additions until commencement of commercial operation.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired businesses, and is being amortized on a straight-line basis over twenty years. On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have impaired the fair value. Goodwill is written down to fair value when declines in value are considered to be other than temporary, based upon expected cash flows of the related acquired business.

Pension Costs

Defined benefit pension plans are funded by the Corporation and pension expense and obligations are determined using the projected benefit method of actuarial valuation prorated over the projected length of employee service. Pension surpluses and deficiencies, experience gains or losses and the effects of changes in plan assumptions are amortized on a straight-line basis over the expected average remaining service life of the relevant employee group.

Contributions by the Corporation to defined contribution pension plans are expensed as incurred.

Post-Retirement Benefits

Post-retirement benefit costs are expensed as incurred.

Research and Development

Research and development costs are expensed as incurred.

Site Restoration and Reclamation

The operations of the Corporation are affected by environmental regulations, including those for future removal and site restoration costs. The Corporation's policy is to meet or exceed standards set by relevant legislation or industry practice.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred. Estimated future site restoration and reclamation costs, when the ultimate liability is reasonably determinable, are charged against earnings over the estimated remaining life of the related capital assets.

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Risk Management Program

The Corporation is subject to the risks and uncertainties inherent in the fertilizer business. Financial results are subject to fluctuations in fertilizer prices, foreign exchange rates and natural gas supply prices over which it has limited control. In addition, the Corporation is subject to normal credit risks as well as the risks of conducting business in an international environment where changes in government could potentially lead to amendments to fiscal policies.

The Corporation monitors and, when appropriate, utilizes financial instruments to manage its exposure to these risks. Market risk related to these financial instruments should be substantially offset by changes in the valuation of the underlying items being hedged. The Corporation only deals with major financial institutions and does not anticipate non-performance by the counterparties.

Foreign Exchange Rate Fluctuations

The Corporation is exposed to foreign exchange fluctuations on its Canadian dollar cash flow. In order to manage this exposure, the Corporation periodically enters into forward and option contracts. The contracts are designated as hedges of fixed obligations and hedges of net foreign currency positions. At December 31, 1997, the Corporation had no forward exchange contracts outstanding (1996 – US \$43.0 million sold forward at rates ranging from Cdn. \$1.33620 to Cdn. \$1.34120). Unrealized gains and losses on these contracts were not material. At December 31, 1997 and 1996, there were no currency options outstanding.

Natural Gas Supply Prices

Natural gas market prices, as with other commodities, are volatile. The Corporation effectively manages prices for its natural gas requirements through the use of a combination of fixed and variable priced contracts with suppliers (Note 14).

The Corporation has entered into natural gas derivative contracts. Under these contracts, the Corporation receives or makes payments based on the difference between a fixed price and the current market price for natural gas.

Gains and losses on these natural gas contracts are recognized as a component of cost of product when the underlying natural gas being hedged is used. At December 31, 1997, the Corporation had contracts with financial institutions and brokers to exchange payments on approximately 70 million MMBtu's of natural gas, which represents approximately 32% of its expected 1998 natural gas needs, approximately 29% of its expected 1999 natural gas needs and 6% of its expected 2000 natural gas needs.

The following table indicates the notional amounts and fair values of the Corporation's natural gas derivative contracts as at December 31, 1997. The Corporation had no similar agreements as at December 31, 1996.

<i>(In millions)</i>	Notional Amount (MMbtu's)	1997 Fair Value
Unrealized gains	35.0	\$ 1.4
Unrealized losses	35.0	(5.8)
Net loss	70.0	\$(4.4)

The fair value represents the amount the Corporation would pay or receive to terminate the contracts at December 31, 1997, based on the prevailing forward prices.

The fair value of long-term debt, including the current portion, at December 31, 1997 was \$505.4 million (1996 – \$186.9 million). This estimate is based on the quoted market price of these or similar issues or by discounting expected cash flows at the rates currently offered to the Corporation for debt of the same remaining maturities.

The fair value of each class of other financial instruments, including cash and short-term investments, accounts receivable, accounts payable, advances and loans, and bank indebtedness approximates their carrying values.

Credit Risk

The Corporation is subject to credit risk through trade receivables and short-term investments. Although a substantial portion of its debtors' ability to pay is dependent upon the agribusiness economic sector, credit risk with respect to trade receivables is minimized by a large customer base and its geographic dispersion.

Short-term cash investments are placed with well capitalized, high-quality financial institutions and in short duration corporate and government debt securities. By policy, the Corporation limits the amount of credit exposure in any one type of investment instrument.

4. BUSINESS COMBINATIONS

(a) On December 10, 1996, Agrium Inc. issued 72,842,670 of its common shares to the shareholders of Viridian Inc. ("Viridian"), a company that manufactures fertilizers at its nitrogen and phosphate plants in Alberta, in exchange for all the issued and outstanding shares of Viridian, at a rate of 0.975 Agrium Inc. common shares for each Viridian share.

At December 31, 1996, the former shareholders of Agrium Inc. held 48.1% and the former shareholders of Viridian Inc. held 51.9% of the 140,377,207 outstanding common shares of the combined company. On December 10, 1996, the closing market price of the Agrium Inc. common shares was \$14.00 per share.

The nature of the business combination was such that neither of the companies could be identified as the acquirer for accounting purposes; therefore, the business combination was accounted for using the pooling of interests method of accounting. Under this method, the consolidated financial statements reflect the combined historical carrying values of the assets, liabilities and shareholders' equity, and the combined historical operating results of the companies for each of the periods presented. The reporting periods and the accounting policies of the two companies have been conformed in the consolidated financial statements.

A summary of the book values of the assets and liabilities at the date of the combination is as follows:

	Agrium Inc.	Viridian Inc.
Assets		
Current assets	\$595.9	\$445.8
Capital assets	456.1	365.3
Other assets	149.3	14.9
Less		
Current liabilities	481.7	114.1
Long term debt	175.9	406.0
Other liabilities	49.6	31.7
Deferred taxes	32.8	34.3
Net assets	\$461.3	\$239.9

The operating results of Agrium Inc. and Viridian Inc. for the year ended December 31, 1996 were as follows:

	Agrium Inc.	Viridian Inc.
Net sales	\$1,225.8	\$678.1
Gross profit	440.0	269.8
Earnings from continuing operations	82.6	77.6
Net earnings	82.6	68.5

Costs of \$10.1 million (\$6.3 million net of tax), consisting primarily of professional and advisory fees, were incurred to effect the business combination and were charged to retained earnings in 1996. Additional restructuring costs of \$19.7 million (\$11.8 million net of tax), comprised primarily of severance and relocation, were charged against earnings in 1996.

(b) On November 6, 1995, the Corporation completed its acquisition of all the common shares of Nu-West Industries, Inc. ("Nu-West") for cash consideration of \$98.9 million. Nu-West is a United States producer and wholesale marketer of phosphate fertilizer products. The acquisition was accounted for using the purchase method. The total purchase consideration of \$98.9 million was allocated as follows:

Cash	\$ 0.2
Non-cash working capital	25.8
Capital assets	120.5
Other assets	13.5
Goodwill	64.0
Deferred income taxes	5.9
Long-term debt	(73.8)
Other liabilities	(9.0)
Minority interest	(48.2)
Purchase price	\$ 98.9

During 1996, the Corporation repurchased or redeemed all of Nu-West's 290,344 outstanding preferred shares for \$47.0 million.

(c) On January 5, 1995, the Corporation acquired all of the common shares of Western Farm Services, Inc. ("WFS"), a United States retailer of crop production inputs. The purchase consideration consisted of \$31.5 million of 5.5% cumulative redeemable convertible preferred shares and \$0.2 million of cash acquisition costs. The acquisition was accounted for using the purchase method. The total consideration of \$31.7 million was allocated as follows:

Cash	\$ 0.1
Non-cash working capital	(3.9)
Capital assets	50.2
Other assets	3.6
Goodwill	1.6
Deferred income taxes	0.2
Long-term debt	(20.1)
Purchase price	\$31.7

5. DISCONTINUED OPERATIONS

On June 26, 1996, the Corporation transferred cash, its advanced industrial materials business and related research and development activities and other industrial businesses to a new wholly-owned subsidiary. The book value of net assets of the subsidiary were subsequently distributed to the Corporation's shareholders for \$247.8 million including cash of \$136.6 million. Fair value was estimated to be in excess of book value.

During May 1996, the Corporation completed the sale of its Canadian oil and gas business effective January 1, 1996 for \$60.4 million in cash and four million share purchase warrants of the purchaser, resulting in a net loss after taxes of \$5.7 million upon this sale which is included in, and reported as, discontinued operations net of income taxes for 1996. The four million share purchase warrants were subsequently sold on December 9, 1996 for \$6.6 million with the full proceeds recorded as a gain.

On November 24, 1995, the Corporation transferred its interest in certain non-core activities of mining, processing, refining and marketing of commodity cobalt and nickel, international oil and gas and its engineering and metallurgical technologies business, together with rights in respect of all associated intellectual property and \$157.7 million in cash to a wholly-owned subsidiary. In return, the Corporation received 71,846,704 restricted voting shares of the subsidiary. Following this reorganization, the Corporation distributed its entire investment in the subsidiary to its shareholders in connection with a rights offering, at the net book value of its net assets of \$155.4 million, after deducting the net proceeds of the rights offering of \$243.0 million. The fair value was estimated to be in excess of net book value.

The results of discontinued operations are summarized as follows:

	1996	1995
Net sales	\$ 63.2	\$366.0
Earnings (loss) before income taxes	\$(13.1)	\$ 42.1
Income taxes (recovery)	(4.0)	14.4
Net earnings (loss)	\$ (9.1)	\$ 27.7

6. ACCOUNTS RECEIVABLE

	1997	1996
Trade accounts	\$339.7	\$287.7
Rebates and other non-trade accounts	31.4	27.4
	371.1	315.1
Less allowance for doubtful accounts	7.7	6.0
Receivable interest sold	50.0	50.0
	\$313.4	\$259.1

On December 24, 1996, the Corporation entered into an agreement with a financial institution to sell, on an ongoing basis, an undivided percentage interest in a designated pool of receivables, on a non-recourse basis, in an amount not to exceed \$50.0 million. In 1997, fee and expense payments related to this sale totalled \$2.6 million (1996 – \$0.1 million).

7. INVENTORIES

	1997	1996
Fertilizers and chemicals	\$181.8	\$202.6
Operating supplies	44.2	26.7
Raw materials	21.9	16.5
	\$247.9	\$245.8

8. CAPITAL ASSETS

	1997			1996		
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	\$ 27.4	\$ –	\$ 27.4	\$ 26.9	\$ –	\$ 26.9
Buildings and improvements	150.4	73.0	77.4	140.8	68.8	72.0
Machinery and equipment	1,235.5	545.4	690.1	1,184.5	511.1	673.4
Resource property	38.4	6.5	31.9	5.6	0.5	5.1
Construction in progress	51.2	–	51.2	44.0	–	44.0
	\$1,502.9	\$624.9	\$878.0	\$1,401.8	\$580.4	\$821.4

9. OTHER ASSETS

	1997	1996
Investment in retail dealerships	\$ 9.4	\$ 13.2
Patents, trademarks and supply contracts	3.7	11.4
Receivable under environmental indemnity agreements (Note 12)	21.0	32.2
Advances and loans	10.0	18.5
Other	42.3	31.2
	\$86.4	\$106.5

10. BANK INDEBTEDNESS

Agrium Inc.

Effective January 27, 1997, the Corporation amended its unsecured four-year term loan facility to decrease the amount available thereunder from \$400.0 million to \$192.8 million. In accordance with the credit agreement, the term facility was reduced by an additional \$92.8 million on February 1, 1998. Interest rates on this term loan facility are at either the London inter bank offered rate ("LIBOR") or a base rate established by the bank plus variable spreads, at the election of the Corporation. Amounts drawn at December 31, 1997 were \$35.5 million (1996 – \$298.4 million). Additional lines of credit include a Cdn. \$35.0 million demand operating loan facility which may be made in the equivalent amount in US dollars. Interest rates on this demand operating loan facility are based on the prevailing bankers' acceptance rates plus a spread or at commercial rates plus a commission. This facility was unused at December 31, 1997 and 1996. In December 1997, the Corporation secured an additional commercial paper borrowing facility of Cdn. \$150.0 million, or its equivalent in US dollars. The paper is rated investment grade by the two Canadian rating agencies and bears interest at prevailing market rates. At December 31, 1997, \$7.0 million was issued and outstanding. The loan agreements require the Corporation to maintain certain financial ratios and other covenants.

Agrium US Inc.

In October 1995, a group of US banks agreed to provide Agrium US Inc. with an unsecured revolving credit facility with a termination date of October 5, 2000. The facility, guaranteed by the Corporation, consists of a base revolving credit of up to \$70.0 million and an excess revolving credit of up to \$30.0 million for the period May 1 and ending on November 30 of each year during the term of the agreement. Agrium US Inc. may borrow at interest rates related to US prime rates or LIBOR. The revolving credit facility requires the Corporation to maintain certain financial ratios and other covenants. Amounts drawn at December 31, 1997 aggregated \$26.3 million (1996 – nil).

11. LONG-TERM DEBT

	1997	1996
Unsecured senior notes ^(a)	\$175.0	\$175.0
Unsecured notes and debentures ^(b)	300.0	–
Other	9.4	11.9
	484.4	186.9
Principal repayments due within one year	1.2	2.6
	\$483.2	\$184.3

(a) The unsecured senior notes were issued in two tranches: \$75.0 million at a coupon rate of 6.86% maturing December 29, 2007 with five equal annual principal repayments beginning December 29, 2003 and \$100.0 million at a coupon rate of 7.06% maturing December 29, 2010 with seven equal annual principal repayments beginning December 29, 2004. These notes require the Corporation to maintain certain financial ratios and other covenants.

(b) On January 28, 1997, the Corporation completed long-term unsecured financing comprised of \$75.0 million 7.0% notes due 2004, \$100.0 million 7.7% debentures due 2017, and \$125.0 million 7.8% debentures due 2027. These notes require the Corporation to maintain certain covenants.

12. OTHER LIABILITIES

The Corporation accrues a provision for estimated site restoration and reclamation costs when environmental remedial efforts are probable and costs can be estimated. In determining a provision, the Corporation utilizes the most timely information available regarding past experience, available technology, regulations in effect and the timing of remediation efforts.

At December 31, 1997, the accumulated provision for estimated site restoration and reclamation costs in Other liabilities included \$28.4 million for its Canadian and US wholesale facilities and \$21.0 million for its retail facilities. The Corporation has environmental indemnity agreements with prior owners of the retail facilities. At December 31, 1997, the amounts receivable under the environmental indemnity agreements, as recorded in Other assets (Note 9), totalled \$21.0 million.

The Corporation's operations are affected by federal, provincial, state and local laws and regulations regarding environmental protection. The outcome or timing of the full impact, if any, of legislative or regulatory developments on future operations is not currently estimable.

13. SHARE CAPITAL

Authorized

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

Stock Option Plan

The stock option plan authorizes the Board of Directors to grant options to directors, officers and employees of the Corporation. Options to be issued under the Plan must have exercise prices not less than, and be for terms not longer than, those permitted by the applicable rules of any stock exchange on which the common shares are listed. At December 31, 1997, options outstanding were exercisable at prices ranging from Cdn. \$1.92 to Cdn. \$21.25 per share and have expiry dates ranging from February 16, 1998 to October 1, 2007. Stock option transactions for the respective years were as follows:

(In millions of stock options)	1997	1996
Outstanding, beginning of year	5.4	4.5
Granted	0.1	3.7
Exercised	(0.7)	(2.7)
Cancelled	(0.1)	(0.1)
Outstanding, end of year	4.7	5.4

Shareholder Rights Plan

In May 1995, the Corporation's shareholders approved a shareholder rights plan where one right was issued for each outstanding common share. The rights remain attached to the shares and are not exercisable until the occurrence of certain designated events. The shareholder rights plan expires May 10, 1998.

14. COMMITMENTS

At December 31, 1997, the aggregate annual minimum payments under operating leases in each of the next five years were: 1998 – \$23.2 million; 1999 – \$19.1 million; 2000 – \$15.5 million; 2001 – \$12.8 million; 2002 – \$10.8 million.

The Corporation has commitments for the purchase of natural gas, phosphate rock, sulphuric acid and other purchases for the next five years through agreements with its suppliers. The annual payments under these agreements in each of the next five years are: 1998 – \$196.7 million; 1999 – \$147.7 million; 2000 – \$72.7 million; 2001 – \$36.7 million; 2002 – \$39.7 million.

15. PENSION OBLIGATIONS AND POST-RETIREMENT BENEFITS

The Corporation maintains defined benefit and defined contribution pension plans which cover all salaried employees. These plans are both contributory and non-contributory with regard to participants. Both types of plans include salaried and hourly participants. Benefits from defined benefit plans are based on either years of service and compensation or a rated amount for each year of service. The pension costs are determined annually by independent actuaries and include current service costs and a provision for the amortization of prior service costs. Pension costs for current service are charged to earnings in the year incurred. The liability for past service is charged to earnings over the remaining service lives of the employees.

The Corporation has supplemental funded defined benefit and defined contribution retirement income plans for senior management which are non-contributory and provide a supplementary pension benefit. The plans are provided for by annual charges to earnings sufficient to meet the projected benefit obligations.

Defined Benefit Plans

The Corporation's 1997 net pension expense for defined benefit plans in Canada and the United States was \$1.4 million and \$0.7 million respectively (1996 – \$1.2 million and \$0.8 million; 1995 – \$1.6 million and \$0.8 million).

The actuarial present value of accumulated pension benefits, substantially all of which are vested, amounted to \$36.6 million in Canada and \$22.5 million in the United States at December 31, 1997 (1996 – \$33.7 million and \$22.4 million). At December 31, 1997, the pension plan assets in Canada and the United States amounted to \$40.7 million and \$22.5 million respectively (1996 – \$32.1 million and \$18.9 million).

The 1997 rate of return on pension plan assets was estimated to be 8% per annum in Canada and 8.5% per annum in the United States (1996 – 8% per annum and 8.5% per annum).

In determining the actuarial present value of projected pension benefit obligations, the discount rates used were 8% per annum in Canada and 7% per annum in the United States (1996 – 8% per annum and 7.5% per annum). The rate of increase in future compensation levels ranged from 3.5% to 5.0%.

Defined Contribution Plans

The defined contribution pension expense associated with the Canadian plans in 1997 was \$4.5 million (1996 – \$5.0 million; 1995 – \$6.7 million). The Corporation has no defined contribution plans in the United States.

Other Post-Retirement Plans

The Corporation provides certain health care and life insurance benefits for retired employees. These plans are either contributory or non-contributory and contain certain cost-sharing features such as deductibles and co-insurance. These plans are unfunded and benefits are subject to change. Under Canadian GAAP, all post-retirement benefit costs are expensed as incurred.

16. INCOME TAXES

The major factors which caused variations from the expected combined federal and provincial statutory Canadian income tax rate of 45.15% (1996 – 44.97%; 1995 – 45.07%) were the following:

	1997	1996	1995
Income before tax:			
Canadian	\$229.4	\$167.6	\$275.0
Foreign	83.7	79.4	81.3
	\$313.1	\$247.0	\$356.3
Statutory rate	45.15%	44.97%	45.07%
Income tax at statutory rates	141.4	111.1	160.6
Large corporation tax	2.4	–	3.2
Differences in foreign tax rates	(7.5)	(7.1)	(6.1)
Tax deductions less than (in excess of) book deductions	1.4	(6.3)	(3.8)
Manufacturing and processing allowance	(13.5)	(10.5)	(15.8)
Other	4.0	(0.4)	(0.4)
Income tax provision	\$128.2	\$ 86.8	\$137.7
Current:			
Canadian	\$ (24.4)	\$ 83.4	\$ 90.4
Foreign	23.0	15.7	25.2
	(1.4)	99.1	115.6
Deferred (recovery):			
Canadian	114.1	(27.7)	21.7
Foreign	15.5	15.4	0.4
	129.6	(12.3)	22.1
	\$128.2	\$ 86.8	\$137.7

As at December 31, 1997, capital and other assets include \$39.3 million (1996 – \$42.4 million) of costs which are not deductible by the Corporation for income tax purposes.

17. EARNINGS PER COMMON SHARE

Basic and fully diluted earnings per common share are calculated based on the weighted average number of common shares outstanding during the year of 129.0 million and 133.8 million (1996 – 137.7 million and 143.0 million; 1995 – 132.9 million and 143.0 million).

The rate of imputed interest used to calculate fully diluted earnings per share is the average rate of interest earned by the Corporation on its investments of 5.44% (1996 – 4.9%; 1995 – 6.8%).

	1997	1996	1995
Basic earnings per common share (in dollars)			
From continuing operations	\$1.43	\$1.16	\$1.64
Net earnings	\$1.43	\$1.09	\$1.85
Fully diluted earnings per common share (in dollars)			
From continuing operations	\$1.40	\$1.13	\$1.53
Net earnings	\$1.40	\$1.07	\$1.72

18. SUPPLEMENTAL CASH FLOW INFORMATION

The net change in non-cash working capital excluding working capital acquired (Note 4) is as follows:

	1997	1996	1995
Decrease (increase) in current assets			
Accounts receivable	\$ (54.3)	\$ 72.3	\$(38.8)
Income and other taxes recoverable	(29.5)	(53.0)	21.1
Inventories	(2.1)	(24.1)	(24.4)
Prepaid expenses	5.7	(4.2)	(4.2)
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	(29.5)	(30.5)	65.4
Net change in non-cash working capital	\$(109.7)	\$(39.5)	\$ 19.1

Interest of \$40.3 million, \$52.8 million and \$48.3 million was paid during 1997, 1996 and 1995, respectively. Income taxes of \$44.0 million, \$185.7 million and \$45.8 million were paid during 1997, 1996 and 1995, respectively.

19. SEGMENTED INFORMATION

The Corporation's primary activity is the production and wholesale marketing of ammonia, urea, ammonium nitrate, ammonium sulphate, potash and phosphate fertilizer products and the retail sales of fertilizers, chemicals and other agricultural inputs and services. The Corporation operates principally in Canada and the United States. New Products, International and other business segments are not of sufficient size to warrant separate presentation herein.

Sales between geographic regions are accounted for at prices which approximate fair market value and are eliminated on consolidation.

Segmented Earnings and Assets

		North American Wholesale				
		Ammonia	Urea	Ammonium Nitrate and Other	Total Nitrogen	Potash Phosphate
1997	Net sales	\$261.9	\$294.2	\$76.9	\$633.0	\$139.8 \$279.6
	Cost of product	137.8	149.1	49.9	336.8	86.7 195.7
	Gross profit	\$124.1	\$145.1	\$27.0	\$296.2	\$ 53.1 \$ 83.9
	Expenses:					
	Selling					
	General and administrative					
	Depreciation and amortization					
	Research and development					
	Royalties, resource and other taxes					
	Other (income) expense					
	Earnings from continuing operations before interest and income taxes					
	Total assets					
	Capital expenditures					
1996	Net sales	\$262.3	\$339.3	\$91.2	\$692.8	\$111.8 \$279.9
	Cost of product	126.6	148.1	52.7	327.4	79.6 192.0
	Gross profit	\$135.7	\$191.2	\$38.5	\$365.4	\$ 32.2 \$ 87.9
	Expenses:					
	Selling					
	General and administrative					
	Depreciation and amortization					
	Research and development					
	Royalties, resource and other taxes					
	Other (income) expense					
	Earnings from continuing operations before interest and income taxes					
	Total assets					
	Capital expenditures					
1995	Net sales	\$247.1	\$311.0	\$83.1	\$641.2	\$118.7 \$219.4
	Cost of product	112.2	133.1	46.6	291.9	72.3 162.3
	Gross profit	\$134.9	\$177.9	\$36.5	\$349.3	\$ 46.4 \$ 57.1
	Expenses:					
	Selling					
	General and administrative					
	Depreciation and amortization					
	Research and development					
	Royalties, resource and other taxes					
	Other (income) expense					
	Earnings from continuing operations before interest and income taxes					
	Total assets					
	Capital expenditures					

North American Retail								
Sulphate and Other Products	Total	Fertilizers	Chemicals	Other Products	Total	Corporate and Other	Elimination	Total
\$68.7	\$1,121.1	\$410.0	\$351.1	\$68.7	\$829.8	\$ 39.4	\$ (52.4)	\$1,937.9
47.4	666.6	305.9	295.4	(1.3)	600.0	31.2	(53.8)	1,244.0
\$21.3	454.5	\$104.1	\$ 55.7	\$70.0	229.8	8.2	1.4	693.9
	28.7				163.5	11.9	-	204.1
	17.1				7.6	19.7	-	44.4
	53.5				23.2	8.2	-	84.9
	-				-	4.7	-	4.7
	5.3				4.5	4.1	-	13.9
	(8.6)				(3.9)	(15.1)	10.6	(17.0)
	96.0				194.9	33.5	10.6	335.0
	\$ 358.5				\$ 34.9	\$ (25.3)	\$ (9.2)	\$ 358.9
	\$1,514.6				\$361.8	\$1,387.3	\$ (1,602.4)	\$1,661.3
	\$ 77.7				\$ 26.1	\$ 39.8	\$ -	\$ 143.6
\$88.8	\$1,173.3	\$379.6	\$337.3	\$63.9	\$780.8	\$ 19.9	\$ (70.1)	\$1,903.9
67.8	666.8	280.9	283.4	1.3	565.6	31.3	(69.6)	1,194.1
\$21.0	506.5	\$ 98.7	\$ 53.9	\$62.6	215.2	(11.4)	(0.5)	709.8
	31.4				152.6	8.6	-	192.6
	23.9				8.0	17.3	-	49.2
	58.2				21.9	0.7	-	80.8
	-				-	2.5	-	2.5
	4.4				4.3	2.8	-	11.5
	3.8				(2.9)	(32.5)	16.0	(15.6)
	121.7				183.9	(0.6)	16.0	321.0
	\$ 384.8				\$ 31.3	\$ (10.8)	\$ (16.5)	\$ 388.8
	\$1,414.5				\$374.8	\$ 810.0	\$ (1,008.8)	\$1,590.5
	\$ 119.0				\$ 24.8	\$ 9.1	\$ -	\$ 152.9
\$77.2	\$1,056.5	\$359.7	\$328.0	\$66.0	\$753.7	\$ 4.0	\$ (67.1)	\$1,747.1
52.8	579.3	250.1	276.2	24.1	550.4	2.9	(68.8)	1,063.8
\$24.4	477.2	\$109.6	\$ 51.8	\$41.9	203.3	1.1	1.7	683.3
	24.6				143.9	4.1	-	172.6
	23.2				3.4	10.0	-	36.6
	44.6				19.2	1.2	-	65.0
	-				-	3.0	-	3.0
	5.6				3.9	4.8	-	14.3
	0.4				(1.1)	(33.6)	16.6	(17.7)
	98.4				169.3	(10.5)	16.6	273.8
	\$ 378.8				\$ 34.0	\$ 11.6	\$ (14.9)	\$ 409.5
	\$1,478.8				\$337.1	\$1,511.8	\$ (1,288.3)	\$2,039.4
	\$ 60.3				\$ 24.0	\$ 3.9	\$ -	\$ 88.2

	Revenues	Capital Assets & Goodwill
1997		
Canada	\$ 506.3	\$524.0
United States	1,325.3	377.8
Argentina	36.1	36.1
Other	70.2	-
	\$1,937.9	\$937.9
1996		
Canada	\$ 579.5	\$525.0
United States	1,238.8	347.5
Argentina	19.1	11.1
Other	66.5	-
	\$1,903.9	\$883.6
1995		
Canada	\$ 548.5	\$592.2
United States	1,134.0	330.8
Argentina	3.2	3.9
Other	61.4	-
	\$1,747.1	\$926.9

20. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian Basis"). These principles differ in certain respects from those applicable in the United States ("US Basis"). The approximate impact on the Corporation's financial statements is summarized below:

Consolidated Statements of Operations

	1997	1996	1995
Earnings from continuing operations – Canadian GAAP	\$184.9	\$160.2	\$218.6
Adjustments net of tax:			
Post retirement benefits ^(a)	<i>FAS 106</i> (3.0) ✓	(1.1)	(0.3)
Capitalized interest costs ^(b)	-	0.8	-
Debt retirement costs ^(c)	-	39.5	-
Merger costs ^(d)	-	(6.3)	-
Income taxes ^(e)	<i>FAS 109</i> (0.8) ✓	(2.4)	(0.6)
Earnings from continuing operations – US GAAP	\$181.1	\$190.7	\$217.7
Discontinued operations (net of tax) – Canadian GAAP	\$ -	\$ (9.1)	\$ 27.7
Ceiling test adjustment to oil and gas properties ^(f)	-	14.5	8.8
Depreciation and depletion of oil and gas properties ^(f)	-	-	8.8
Discontinued operations (net of tax) – US GAAP	\$ -	\$ 5.4	\$ 45.3
Net earnings – Canadian GAAP	\$184.9	\$151.1	\$246.3
Earnings before extraordinary item – US GAAP	\$181.1	\$196.1	\$263.0
Extraordinary item – debt retirement costs	-	(39.5)	-
Net earnings – US GAAP	\$181.1	\$156.6	\$263.0
Basic earnings per common share (in dollars) – US GAAP			
Continuing operations	\$ 1.40	\$ 1.38	\$ 1.63
Earnings before extraordinary item	\$ 1.40	\$ 1.42	\$ 1.97
Net earnings	\$ 1.40	\$ 1.14	\$ 1.97
Diluted earnings per common share (in dollars) – US GAAP			
Continuing operations	\$ 1.37	\$ 1.34	\$ 1.52
Earnings before extraordinary item	\$ 1.37	\$ 1.38	\$ 1.84
Net earnings	\$ 1.37	\$ 1.11	\$ 1.84

(a) Post-retirement benefits, under Financial Accounting Standards No. 106, are accrued under US GAAP but are expensed as incurred under Canadian GAAP.

(b) Under US GAAP, a portion of interest costs incurred must be capitalized as part of the cost of unproved properties and major development projects. There is no such requirement under Canadian GAAP and it is not the Corporation's policy to do so.

(c) Under Canadian GAAP, expenses incurred to refinance long-term debt are accounted for as regular operating expenses. Under US GAAP, these amounts are considered to be extraordinary items.

(d) Under Canadian GAAP, expenses incurred to effect a business combination accounted for as a pooling of interest are reflected as a capital transaction and charged to retained earnings. Under US GAAP, these amounts are charged to earnings.

(e) Financial Accounting Standard No. 109 requires an asset and liability approach for accounting for income taxes. Deferred income taxes are recognized, at enacted rates, to reflect the future effects of tax carry-forwards and temporary differences arising between the tax basis of assets and liabilities and their financial reporting amounts at each year end. Assets and liabilities related to purchased businesses are restated to eliminate the net of tax accounting for such assets and liabilities under Canadian GAAP, resulting in higher carrying values and therefore higher operating charges for depreciation, depletion and amortization, but lower tax expense.

(f) Under the full cost method of accounting, according to Canadian GAAP, the net carrying cost of oil and gas properties in producing cost centres is limited to an estimated recoverable amount which is the aggregate of future net revenues from proved reserves plus the costs of undeveloped properties, net of certain costs (the "Canadian ceiling test"). Under US GAAP, as defined by the Securities and Exchange Commission, costs accumulated in each cost centre are limited to an amount equal to the present value, discounted at 10%, of the estimated future net operating revenues from proved reserves plus the lower of cost or estimated fair value of unproved properties (the "US ceiling test").

Where the amount of a ceiling test write-down under Canadian GAAP differs from the amount of the write-down under US GAAP, the charge for depreciation and depletion under US and Canadian GAAP will differ in subsequent years.

In 1996, substantially all oil and gas properties were sold.

(g) Statement of Financial Accounting Standards No. 123, Accounting for Stock-based Compensation, establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. As permitted by the Statement, the Corporation has elected to continue to follow the intrinsic value method of accounting for stock-based compensation arrangements, as provided for in Accounting Principles Board Opinion 25. Since all options were granted with exercise prices equal to the market price at the date of grant, no compensation cost has been charged to operations.

Consolidated Statement of Changes in Financial Position

Under Canadian GAAP, activities that do not affect cash are included in the determination of financing and investing activities in the Statement of Changes in Financial Position. US GAAP requires the exclusion of non-cash activities. The approximate impact on the Corporation's Statement of Changes in Financial Position is as follows:

	1997	1996	1995
Investing – Canadian GAAP	\$(180.6)	\$(276.8)	\$(206.9)
Acquisition of subsidiary	–	–	31.5
Investing – US GAAP	\$(180.6)	\$(276.8)	\$(175.4)
Financing – Canadian GAAP	\$(152.7)	\$(224.5)	\$ 91.7
Issue of preferred shares	–	–	(31.5)
Financing – US GAAP	\$(152.7)	\$(224.5)	\$ 60.2

Consolidated Balance Sheet

Balance sheet items under US GAAP are not materially different from balances under Canadian GAAP.

↑
code as
SE diff = 0

21. QUARTERLY FINANCIAL RESULTS (unaudited)

The following quarterly information includes all adjustments (consisting solely of normal recurring adjustments) necessary for fair presentation:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
1997 Net sales	\$290.3	\$809.8	\$400.1	\$437.7	\$1,937.9
Gross profit	112.9	296.3	128.3	156.4	693.9
Earnings from continuing operations before tax	30.7	192.3	29.9	60.2	313.1
Earnings from continuing operations	18.7	113.7	16.1	36.4	184.9
Net earnings	18.7	113.7	16.1	36.4	184.9
Basic earnings per common share <i>(in dollars)</i>					
Continuing operations	\$0.14	\$0.90	\$0.13	\$0.29	\$1.43
Total	\$0.14	\$0.90	\$0.13	\$0.29	\$1.43
Average outstanding shares <i>(in millions)</i>	133.8	127.1	127.1	126.7	129.0
Fully diluted earnings per common share <i>(in dollars)</i>					
Continuing operations	\$0.14	\$0.87	\$0.13	\$0.28	\$1.40
Total	\$0.14	\$0.87	\$0.13	\$0.28	\$1.40
Average outstanding shares <i>(in millions)</i>	138.8	131.9	131.8	131.4	133.8
1996 Net sales	\$315.1	\$762.0	\$426.9	\$399.9	\$1,903.9
Gross profit	125.2	300.8	131.1	152.7	709.8
Earnings (loss) from continuing operations before tax	39.8	199.7	36.3	(28.8)	247.0
Earnings (loss) from continuing operations	23.9	124.3	23.1	(11.1)	160.2
Net earnings (loss)	27.0	111.8	23.4	(11.1)	151.1
Basic earnings per common share <i>(in dollars)</i>					
Continuing operations	\$0.18	\$0.90	\$0.17	\$(0.07)	\$1.16
Total	\$0.20	\$0.81	\$0.17	\$(0.07)	\$1.09
Average outstanding shares <i>(in millions)</i>	136.0	137.6	138.1	139.3	137.7
Fully diluted earnings per common share <i>(in dollars)</i>					
Continuing operations	\$0.17	\$0.87	\$0.16	\$(0.07)	\$1.13
Total	\$0.19	\$0.78	\$0.16	\$(0.07)	\$1.07
Average outstanding shares <i>(in millions)</i>	142.8	142.8	142.8	143.5	143.0
1995 Net sales	\$273.8	\$704.0	\$309.0	\$460.3	\$1,747.1
Gross profit	108.1	246.3	140.1	188.8	683.3
Earnings from continuing operations before tax	36.6	158.9	65.4	95.4	356.3
Earnings from continuing operations	22.9	98.1	39.3	58.3	218.6
Net earnings	30.0	111.3	44.8	60.2	246.3
Basic earnings per common share <i>(in dollars)</i>					
Continuing operations	\$0.17	\$0.74	\$0.30	\$0.43	\$1.64
Total	\$0.23	\$0.84	\$0.34	\$0.44	\$1.85
Average outstanding shares <i>(in millions)</i>	132.7	132.3	131.6	132.6	132.9
Fully diluted earnings per common share <i>(in dollars)</i>					
Continuing operations	\$0.16	\$0.68	\$0.27	\$0.42	\$1.53
Total	\$0.21	\$0.77	\$0.31	\$0.43	\$1.72
Average outstanding shares <i>(in millions)</i>	144.4	144.2	143.5	140.2	143.0

Officers of the Company

G. Woody MacLaren

Chairman of the Board of Directors

John M. Van Brunt

President and Chief Executive Officer

Dorothy E. A. Bower

Vice President, General Counsel & Corporate Secretary

Larry A. Collins

Vice President, International

Patrick J. Freeman

Treasurer

Richard L. Gearheard

Vice President, North American Retail

Michael J. Klein

Vice President, Human Resources & Administration

Gordon A. Milne

Vice President, Finance & Chief Financial Officer

Ian H. Noble

Vice President, Business Development

Robert J. Rennie

Vice President, New Products

William J. Robertson

Executive Vice President & Chief Operating Officer

Principal Offices

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Denver, Colorado 80237

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Fax (509) 459-4404

Dan R. Peeno, Regional Manager

Principal Subsidiaries and Associated Companies

	<i>Country of Operation</i>	<i>Ownership</i>
Agrium Partnership	Canada	100%
Agrium US Inc.	United States	100%
Agrium Nitrogen Company	United States	100%
Nu-West Industries, Inc.	United States	100%
Crop Production Services, Inc.	United States	100%
Western Farm Services, Inc.	United States	100%
Agroservicios Pampeanos	Argentina	100%
Agrium Argentina SA	Argentina	100%
Canpotex Limited	International	33 1/3%
Viridian Inc.	Canada	100%
Viridian Fertilizers Ltd.	Canada	100%

Share Capital

Agrium Inc. is incorporated under the Canada Business Corporations Act and is authorized to issue an unlimited number of common shares and preferred shares.

Annual Meeting

The Annual Meeting of the shareholders of Agrium Inc. will be held at 11:00 a.m. (MDT) on Wednesday, May 6, 1998 in the Turner Valley Room of the Palliser Hotel, 133 9th Avenue S.W., Calgary, Alberta. Shareholders of record on March 26, 1998 are urged to attend and participate in the business of the meeting.

Stock Exchanges and Trading Symbol

Toronto Stock Exchange and New York Stock Exchange: AGU

Agrium Inc. Dividends

A cash dividend of 5.5 cents (US) per common share was paid on January 3, 1997 to shareholders of record on November 29, 1996. A cash dividend of 5.5 cents (US) per common share was paid on July 3, 1997 to shareholders of record on June 18, 1997.

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Agrium Inc. 1997 Price Range and Trading Volumes

<i>Quarter Ended</i>	<i>Stock Exchange</i>	<i>High</i>	<i>Low</i>	<i>Close</i>	<i>Volume</i>
March 31	Toronto (C\$)	21.30	17.25	17.50	46,401,359
	NYSE (US\$)	15.88	12.63	12.75	14,936,600
June 30	Toronto (C\$)	19.00	14.80	15.80	21,729,414
	NYSE (US\$)	13.88	10.63	11.50	8,624,800
September 30	Toronto (C\$)	18.55	14.25	16.60	31,127,311
	NYSE (US\$)	13.31	10.38	12.00	16,112,800
December 31	Toronto (C\$)	17.50	12.95	17.40	28,031,117
	NYSE (US\$)	12.44	9.88	12.19	16,913,500

GLOSSARY OF TECHNICAL TERMS

CO ₂	Carbon Dioxide
KCl	Potassium Chloride, the most common form of potash fertilizer.
K ₂ O	Standard reference for grades of potash fertilizer. Grades are normally expressed as a percentage of equivalent K ₂ O.
Nutrient Grade	The nutrient content of fertilizers, expressed in terms of N-P-K-S: N = percentage of elemental nitrogen P = percentage of phosphorus expressed as equivalent P ₂ O ₅ K = percentage of potassium expressed as equivalent K ₂ O S = percentage of sulphur
P ₂ O ₅	Standard reference for grades of phosphorus in phosphate fertilizers. Grades are normally expressed as a percentage of equivalent P ₂ O ₅ .
Ton	2,000 pounds. Also referred to as a "short ton."
Tonne	2,204 pounds or 1,000 kilograms. Referred to as a "metric tonne."





WELL-POSITIONED FOR SUCCESS

Agrium

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